

BUSINESS PROBLEMS

of the

SMALL CANNERY

Fruit and Vegetable Processing Laboratory
Dominion Experimental Station
Summerland, B.C.



CANADA DEPARTMENT OF AGRICULTURE

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Business Problems of the Small Cannery

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Dominion Experimental Station

Summerland, B.C.

INTRODUCTION

Ninety per cent of the business failures in Canada in 1952 were due to lack of experience in one form or another, according to a survey made by Dun & Bradstreet of Canada. At first it might be thought that this inexperience refers to a shortage of specialized knowledge required in the particular field of operation. This is not the case. Further study of the report shows, that while a certain percentage of failures resulted from lack of specialized knowledge, by far the greater number were due to inability to handle the ordinary problems that rise from day to day. Failure on the part of management to recognize these, or to adequately deal with them, led to the ultimate failure of the business.

Records over a number of years indicate that small canneries are no exception to the general pattern. There have been failures as well as successes. In many cases management was sufficiently familiar with processing procedure to turn out a first class product. Thus failure could not always be blamed on a lack of technical knowledge. Generally failure was due to an accumulation of causes, many of which could be classified as poor business management. In most instances management was unaware of the problems to be faced and because of this was unprepared to deal with them when they arose. This lack of familiarity with everyday business problems appears to be a severe handicap to the small canner. Men of various training, especially farmers, who are unfamiliar with the everyday problems of business, suddenly find themselves involved in small cannery operation. The small canner soon learns that he is constantly beset by a multitude of problems that lie quite outside the field of processing.

Some of the more common of these business problems are discussed in this bulletin. Wherever possible solutions as worked out by successful small canners are offered as a guide. No bulletin, however, can list all the various and complex business difficulties that the small canner may meet, nor is it possible to lay down hard and fast rules for dealing with all problems. The writers believe that the successful business man is the one who is able to foresee most of his problems, and who profits from the experience of others in devising ways and means of solving them.

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Part I

ORGANIZATION PROBLEMS

IN STARTING a small cannery a number of problems confront the operator long before he commences actual canning. Examples of typical problems are as follows:

1. Factory site
2. Water supply
3. Building plans
4. Type of construction
5. Lighting
6. Choice of boiler
7. Choice of equipment, etc.

These have been discussed at length in "Small Canneries", Publication 828, Canada Department of Agriculture. This bulletin may be obtained on application from Information Service, Department of Agriculture, Ottawa. While "Small Canneries" provides the "know how" of small-scale canning, the present bulletin provides information on some of the business problems that may be encountered.

WHEN TO START

When Goods are in Short Supply

If such a choice were possible the ideal time to start a small cannery would be when canned goods are in short supply. At such times most marketing problems are non-existent. Under such conditions the canner could put up his pack, ship it to market, and collect his money. There are times when canned foods are in short supply, but unfortunately this is usually associated with a short supply of raw products. However, launching the business during a period when manufactured goods are in short supply is an ideal situation. Starting when there is an abundance of canned foods does not allow for any inefficiencies.

When Raw Products are Plentiful

This is a situation that is far more likely to occur. Most small canners get their start during such a period. The very fact that a local surplus of fruit or vegetables exists, or threatens to exist, is usually what causes the

prospective canner to think of the possibilities of a small cannery. Whether he realizes it or not he is much more concerned with the problem of a steady market for his raw produce than he is with the possibilities of a successful cannery. While it is true that the small cannery may provide an outlet for surplus produce this fact should not be given undue importance in deciding when to start a small cannery.

In Periods of General Prosperity

Business executives, bankers and trade publications are constantly referring to business cycles. The theory is that business trends travel in cycles. According to this theory the smart business man will base his entry into business in accordance with the general trend of industry, and the particular trend of his own industry. Incurring debts at the start of an upward trend in the business cycle to be paid off at a later more prosperous period is considered good business—but not vice versa.

It is doubtful if the average man starting a small cannery pays more than casual attention to business cycles. However, banks, business publications, and government statistics are good sources of information as to current business and price trends and it is wise to seek as much well-qualified opinion of that kind as possible.

There is no question that the general trend does have a decided influence on the possibility of success. While people must eat in bad times as well as good, in times of high wages and free spending the processor enjoys a larger portion of the public's dollar. When the public feels that it must economize, canned foods sales are among the first to suffer.

When Financial Assistance Is Readily Available

Since initial capital plays such an important role in establishing any successful business, it is well to give proper consideration to this matter. When personal savings are sufficient to provide all necessary capital no problem is presented, but this is a happy state of affairs not frequently met. The average small canner, when starting, has to look to outside assistance in raising adequate initial capital. In times of general prosperity investment by friends and neighbors in developing a local cannery may not be difficult to obtain. The same applies to possible investment by those activated by no motive other than to find a profitable spot in which surplus savings may be placed to earn a reasonable rate of interest. Financial institutions, whose business it is to make long-term loans, are affected by general business conditions. The rate of interest charged on money and the ease with which it may be obtained from such institutions varies with general business trends. Obviously the ideal time to launch the business as far as capital is concerned, is when long-term loans are readily obtainable at low rates of interest.

WHERE TO START

Privately-Owned Property

Usually it is desirable to locate on property owned by the cannery operator or canning company. Such property provides a stable foundation on which to build the industry and it has the further advantage of being a clear asset for credit purposes. However the small prospective operator can be easily influenced too much in favor of using some of his presently owned farm land as a site even though this may not be the most suitable. The importance of choosing a suitable site for the location of the cannery cannot be overemphasized. Correct choice of site resulting in lower operating costs can make the difference between a marginal and a profitable business. There are several cases of small operators starting a plant on a site they already owned—but which they knew was unsuitable—who have had either to enlarge on this unsuitable site, or move the entire plant to a new location. Unsuitable sites mean costly operation.

If a suitable site is owned by the prospective operator it is suggested that this be subdivided from the main property, so as to establish the cannery as a new business. If, on the other hand, presently owned property is unsuitable a proper location in the district should be sought.

If outright purchase of a suitable cannery site is going to result in shortage of capital for other purposes, the prospective canner should consider purchasing on terms that will give possession without crippling available capital.

On Rented Property

Under certain conditions renting is worthy of consideration. There are times when suitable buildings, or a suitable building site, may be obtained on a rental-purchase basis. Such a move would tend to ease the strain on initial investment. Renting, in addition to keeping the available capital free for equipment and operations, has the added advantage of allowing the canner to choose his site where full consideration may be given to all factors contributing to a suitable location. Under some circumstances assets developed on rental property cannot be used as collateral. This may become a serious disadvantage.

Locations

On Main Highways—The importance of trucks in modern transportation is constantly increasing. Therefore the property should be readily accessible to main truck lines. Many small canners who located on one corner of the home farm have discovered later that the private road to the buildings was not adequate for heavy trucks. Instead of being in the position where incoming freight could be delivered at the plant door, or outgoing freight loaded direct on main-line trucks, location precluded these obvious advantages. In some locations delivery by main line trucks is faster than by rail, and in all cases goods are delivered to and picked up from the plant at no extra cost. This saves both time and money.

On Secondary Roads—Plants located on secondary roads, available to neither rail nor long-distance trucks, must realize a substantial saving in initial costs to offset the loss incurred in extra handling. In some districts long-distance truck lines maintain depots where main-line trucks deliver goods. From these depots lighter trucks deliver to plants located off the main routes of travel. This process results in delays, double handling, and higher costs.

On Rail Trackage—The small canner frequently considers his plant too small to warrant the extra expense of having a rail spur available. Perhaps this may be true for one or two seasons but if the cannery is to grow, trackage in addition to good truck service becomes very desirable. Usually an arrangement can be made with the railroad to put in the necessary trackage with payment spread over a period of years. The advantages of having a spur alongside the plant are as follows:

1. Cars can be loaded by conveyor thus saving time, effort, and expense.
2. Cars may be assembled at the plant instead of at a remote point.
3. Unloading of cans, sugar, and other supplies delivered in straight car lots is facilitated.
4. Where goods are to make up part of a load in a car originating at some other point the advantage of being able to spot the car on plant trackage, and to complete the load from the plant is important.

Electric Power—Today electric power is very desirable in operating a successful cannery. A careful check should be made to see that adequate power is available at all times. Capacity of lines for future development should also be considered. Many small canners have discovered after one season's operation that the original savings effected by locating remote from a high tension power line were swallowed up by the cost of erecting extra poles, transformers, etc., to carry the additional load needed for expansion. There should be a clear understanding at the outset with the power company, or the municipality, covering the division of costs, in case additional power is needed at a later date.

Public Water Supply—Publication 828, "Small Canneries", stresses the need for an adequate supply of suitable water. The small cannery that attempts to operate with a water supply of doubtful *quantity* or *quality*, is inviting trouble. It is advisable to check carefully sites where water is available under pressure, cost per unit, quality, and amount available. Canneries are large users of water and these costs must be balanced against pumping from a private supply.

Sewage disposal is also a problem. City sewage systems usually refuse to accept cannery waste unless most of the solids have been removed. Under all conditions a suitable site should include at least sufficient space for a waste disposal unit that will separate the solids from the liquid.

Low Tax Property—Most villages and towns are anxious to attract industry. Many of them have industrial areas mapped out where certain concessions are made in the way of light, water, and sewage services. In addition such locations may carry a lower tax rate than other property. It is

well to determine the possibility of locating in a low tax area, or in obtaining worthwhile tax concessions. Such tax concessions should be permanent and irrevocable or at least be guaranteed for a sufficiently extended period of years. Where these are made it is likely that certain building restrictions are also in force. These should be determined before any move is made to purchase, rent, or build.

Protected Property—While this may not appear to be of prime importance, it is well to determine the protection offered to the location chosen. Petty pilferage and damage to buildings and equipment is much more prevalent in some localities than in others. Isolated locations may not be too desirable in view of the fact that the cannery may stand idle for long periods.

Property Adjacent to Raw Products—The advantages of being located adjacent to the source of raw products are as follows:

1. Transportation costs of raw material are reduced.
2. Quality is improved through a higher percentage of top grades.
3. Raw material container cost is reduced.

When the source of raw material is adjacent to the cannery, the producer very often makes frequent deliveries of products. This results not only in better quality produce but a much closer relationship between the canner and producer. Under such conditions the canner is better able to explain his requirements, and the producer is more likely to understand them. Where difference of opinion exists between canner and producer on a matter of weight of grade, it is much more readily adjusted when canner and producer can meet and discuss the problems while the produce in question is still on the receiving platform.

It would be ideal to locate the cannery in a fruit and vegetable producing area, and at the same time be within easy hauling distance of the source of such other supplies as cans, sugar, labels, etc. However, this is seldom possible. The canner planning to start in the industry should carefully consider the advantages of locating near the source of raw material against the cost of landing supplies at his factory. Where rates place him at a disadvantage with his more favorably located competitors, he must of necessity offset this disadvantage by some other advantage that will place his overall costs on equal footing.

Property Adjacent to Markets for Finished Product—Most canners sell on a f.o.b. cannery basis. This means that the cost of transporting the finished goods from the cannery is borne by the buyer. The canner should give careful consideration to the cost of transporting his finished product to market. Buyers are very sensitive to landed costs. Fractions of a cent assume importance in their calculations. Difference in landed costs may well be the difference between a sale and no sale, or it may mean that the canner to be competitive with the more favorably located canner, has to absorb the difference in transportation costs.

Adjacent to Labor Supply—Locating adjacent to an adequate supply of experienced labor is one of the most important considerations in choosing a cannery site. Unlike many other types of business, cannery labor demands fluctuate with the season. To attract and to hold satisfactory labor can be exceedingly difficult. In many small districts the canner depends on local women and girls for the major portion of his seasonal labor. In other districts it is necessary to bring in outside help and to provide living accommodation. If suitable dwellings have to be erected, an additional item is added to the capital outlay.

Key personnel such as engineer, foreman, forelady, etc., also present a problem for the small canner. Continuity of employment is equally important to employee and employer. Seldom is the operation such that year-round employment can be offered. This problem is much more acute with the small canner than with his larger counterpart. Usually the larger cannery is able to provide year-round employment for its key personnel and is thus able to retain a nucleus of experienced help. The problem is one that should be carefully studied because much of the success of the cannery may depend on obtaining and holding experienced labor.

HOW TO ORGANIZE

It is important that the proposed cannery should be established as a business separate from anything else in which the operator may be engaged. Canneries can very quickly require large amounts of capital and operating money, so that it is unwise to have this investment confused with any other business. A correct picture of the financial position of the business is impossible if it is merged with another operation. Almost invariably it becomes necessary to seek operating capital from the local bank. At that time the banker will ask for figures on the cannery operation. He will want a budget, a profit and loss statement, and as complete a financial statement as it is possible to obtain. Separate books and financial records for the cannery will ease the path to a loan even though the banker may depend on the farm or some other income as his main source of security for the cannery loan. It will also be simpler to handle taxes if the cannery is set up as a separate business.

Form to Take

After the decision is made to establish the cannery as a separate business the form of organization must be decided. This may be one of the following:

1. Private Ownership
2. Partnership
3. Limited Liability Company
4. Co-operative
5. A Limited Liability Company as a subsidiary of a Co-operative

Private Ownership—Many small canneries are privately owned by one individual. When the business is small and the owner does much of the work, and all of the initial financing, private ownership may be all that is necessary.

This form of organization offers many advantages. There are no partners, nor shareholders, with whom profits must be shared. There are no directors interfering with the policies of the company. There are no delays in reaching important decisions. The owner is free to set his own pace. No one has to be persuaded to follow certain policies. Private ownership carries with it freedom of action.

On the other hand, the very features that appear to be advantages may turn out to be disadvantages. If the owner insists on retaining all the profits he must be prepared to be responsible for all the necessary investment. If he desires to be unhampered in the matter of forming policies he must be prepared to assume all risk.

Credit with banks or financial institutions is often easier to obtain if a number of individuals are responsible for loans. In spite of the desire of the private owner to form his own policies he may feel the need of the experience and advice of others.

The decision to work alone, or with others, must depend in a great measure on the personality and the financial position of the canner. If he has adequate finances to start the cannery, and to keep it going, and if he is so constituted that he finds it difficult to work with others, then it may be advisable to operate under private ownership. He must be fully aware of the fact that he will be responsible for every cent of debt, and if the cannery should fail, he could be placed in a very undesirable position.

Partnership—Attractive as private ownership may appear, a partnership offers certain advantages. This form of business means sharing the profits with another, but it also means that the risks and losses are shared. As indicated previously there may be decided advantages in sharing responsibility for decisions. Frequently partners can be found who supplement each other in training and experience. A man who is a good mechanic and able to erect the machinery of the cannery, and supervise it after erection, may choose a partner who has had previous business experience and is able to take over the responsibility of the office. A partnership means a division of capital invested in the business. Where one man might find himself handicapped by lack of adequate capital the combined resources of two might place the business in a sound position. Partnerships often have a distinct advantage when it comes to borrowing funds.

There are of course definite disadvantages in this form of organization. Differing personalities may result in a clash of opinions that far from working to the advantage of the company may result in friction that leads to distrust and inefficient operation. A change in the personal fortunes of one partner may well be reflected in the partnership. Prolonged sickness, permanent disability, or death, may change completely the partnership relation.

No form of partnership should be entered into without having a proper agreement prepared by a competent solicitor. The simplest partnership form should include the following:

1. Amount to be invested by the partners
2. Financial risk and responsibilities of the partners
3. Method of arriving at profits or losses

4. Method of dividing profits or losses
5. Powers and duties of the partners
6. Length of time during which agreement is to exist
7. Conditions under which a partner may withdraw
8. Method of dissolving the partnership
9. Method of dividing assets in the event partnership is dissolved.

As a Limited Liability Company—"Limited Liability" means that the owners are limited in their responsibility, in case of failure of the company, to the amount of money they have invested in shares. To form a limited liability company it is wise to obtain the services of a solicitor who is familiar with the terms of the Companies Act in the province in which the cannery is located. He will draw up the incorporation papers and handle the registration of the company with the Registrar of Companies for the province. The cost is small compared with the advantages. By establishing a limited liability company one has created a legal entity that is completely separate from any other business in which the shareholders may be involved. The new company can own property, enter into agreements, issue shares, etc. Shares may be held by a few or by an unlimited number.

In many districts where small canneries are being established there are individuals interested in the project purely from an investment standpoint. Consequently, by forming a limited liability company the financial assistance of these individuals may be obtained.

Another advantage of forming a limited liability company and spreading the financial risk over a number of individuals is that continuity is not dependent on the interest and investment of a few individuals. Management will continue even though ownership of shares and controlling interest may change hands. The investor who is interested only as an investor is more likely to be attracted by this type of company. He is free to buy or sell his shares as he sees fit.

As a Co-operative—Co-operatives enjoy a large measure of popularity. Provincial and federal laws often favor the formation of such bodies; and in some cases certain tax advantages may be gained by organizing as a co-operative. This point should be thoroughly investigated through a solicitor. The distribution of risk and the ease of raising capital are points in favor of this type of organization. Much of the strength of co-operatives depends on the characteristics, education, and ability of individual members.

A co-operative has certain disadvantages. In the case of a small co-operative cannery the shareholders are likely to be men primarily interested in an outlet for their fresh produce. The members may have no experience in cannery operation, and perhaps very little in the field of business. From such members the board of directors who will form the policies of the company must be chosen. The time they can devote to such duties must of necessity be limited since other interests will have first call on their energies and abilities. A co-operative director with an investment of only a few dollars will not likely have the same keen interest in the affairs of the business as a private owner who has risked his lifetime savings. On the other hand, many able and earnest

workers give freely of their time and ability to the affairs of co-operatives because they thoroughly believe in the principles of co-operation. Men of this type are "a must" if the co-operative cannery is to be a success.

Limited Liability Company as a Subsidiary of a Co-operative—Fruit and vegetable co-operatives handling fresh produce frequently are interested in the establishment of canneries as a subsidiary of their main operation. Advantages of this type of organization are as follows:

1. The parent co-operative has complete control over the sources of raw products thus ensuring highest quality and most economical handling.
2. Buildings and equipment often can be shared by both the parent co-operative and the cannery. Thus storage space, cold storage facilities, trackage, etc., are available at minimum costs.
3. Close co-operation between packing house and cannery may result in more economical operation for both, and increased returns to the grower members.

Disadvantages of this type of organization are as follows:

1. The cannery manager may have to deal with a board of directors quite inexperienced in cannery operation.
2. The directors may be prone to consider the cannery as an outlet for produce unsuitable for the fresh produce market.
3. They may not have a progressive attitude either toward improvements to buildings, or new equipment.

HOW TO RAISE CAPITAL

Money for a business is required under two general headings:

1. Investment or Risk Capital
2. Working Capital

Investment or Risk Capital is required for the purchase of buildings, equipment, etc., as distinct from funds required to operate the plant. Investment Capital is of a more or less permanent nature to be left in the business as long as the business exists. Returns on such investments are usually reckoned in terms of interest. Profits normally come from operating. Investment Capital's function is to provide the basic tools for making an operating profit. Sufficient funds must be in the company to pay for all Risk Capital items.

On the other hand, it is not practical for a company to supply all its Working Capital from its own resources. But it is necessary for a company to have sufficient funds under the classification of Working Capital so that it can process part of its season's pack. Then when the cannery has goods either in process, or finished in the warehouse, a bank under Section 88 of the Bank Act is empowered to make a loan and take security over the cannery's product. Working Capital is dealt with in detail starting at page 48.

Some sources of Investment or Risk Capital are:

1. Personal Savings
2. Outside Investments

3. Sale of Shares
4. Loans
5. Profits

Personal Savings

In the case of single proprietorship the main source of Investment Capital is most likely to be personal savings. These may be used for the purchase of land, erection of buildings, and the acquisition of equipment. Inability to forecast actual costs, and optimism over the elasticity of the savings account often lead to difficulties. Costs of land, buildings, or equipment may exceed original estimates. Thus savings are largely used for these items leaving little or nothing for Operating Capital. In this case the business may be severely handicapped from the start. Too often the capital does not complete the factory and the super optimist expects that the deficit will be made up from first-year profits. Sometimes this may happen, but too often the management discovers too late that this is not possible. Additional liabilities are incurred, and the plant struggles along with insufficient Investment or Risk Capital, and insufficient Working Capital. It is then handicapped in dealing with the bank for operating loans because of lack of debt-free assets, particularly in processed goods manufactured with the company's Working Capital.

If it is apparent that personal savings will not be adequate to provide necessary Investment Capital and a reasonable portion of Operating Capital, the canner should consider other means of obtaining a portion of the money needed to provide land, buildings, etc.

Outside Investments

In most districts there are individuals who are interested in placing funds at the disposal of a cannery. They have a desire to see the district prosper, and, they prefer to make their investments close to home where they can be shepherded with the minimum of effort. Local business men realize that any project that brings increased revenue to the district will be reflected in the increased prosperity of their business.

Outside investment may be in the form of a loan, which carries with it no sharing of the profits or direction of the cannery, or it may take the form of shares in the cannery. This is assuming that the cannery has been incorporated as a limited liability company to give it greater flexibility. The advantages and disadvantages of each form are discussed further in the following paragraphs.

Sale of Shares

Selling shares to the investing public is a common form of raising Investment Capital. Control passes out of the hands of a single individual or partners into that of a Board of Directors selected by the shareholders to formulate the policies of the company and to protect their interests. If this method of raising capital is followed, the details in connection with company organization should be placed in the hands of a competent solicitor.

Whether shares sold are Common, Preferred, or both, depends largely on who is to control the business and who is to take the risks. Usually Common Shares hold the voting power and thus the common shareholders either directly, or through their Board of Directors, determine the policy of the company. Preferred Shares normally carry no voting power under the terms of the articles of incorporation.

Common Shares participate in extra profits but the return on Preferred is ordinarily limited to a fixed dividend rate, which becomes a prior charge to dividends on the Common Shares. Also, in case of the company being liquidated, arrangements can be made for the Preferred Shares to be redeemed before the common stock.

Loans

Short Term—Loans for Investment or Risk Capital are usually classified as Short-Term Loans and Long-Term Loans. Since the loan is generally needed for items that remain an asset over a considerable period of time, such as land, buildings and equipment, Short-Term Loans are not usually of any assistance to the canner. However, there are occasions when a Short-Term Loan for Investment or Risk Capital may be used to advantage. The average bank can be interested in a Short-Term Loan if it can be shown by the canner that the purpose for which the money is needed will substantially increase the efficiency or output of the cannery and that the loan can be repaid in a relatively short time.

Long Term—Long-Term Loans are usually of more value for Investment or Risk Capital purposes. The local bank is seldom interested in Long-Term Loans. Insurance companies, mortgage companies, and investment houses, are the usual source of loans of this nature. Such loans are not made without adequate collateral backing. The canner obtaining a Long-Term Loan in this manner should make certain that the loan is adequate to meet his purposes, that it does not fall due until such time as the plant is operating successfully, and that the interest rates charged are in line with standard charges.

Canadian processors have access to the Industrial Development Bank as a possible source of Long-Term Loans*. (1) This bank was created by the Canadian Government to perform the function that is normally outside the commercial banking field. If the canner has a solid reputation, and a sound proposition backed by adequate collateral, he may obtain from the Industrial Development Bank long-term loans for the purchase of land, buildings, machinery, etc., that will permit him to increase the efficiency and output of his plant.

Loans are made on the merits of individual propositions after they have been carefully investigated by competent employees of the Bank. Repayment terms are fashioned in a manner to meet the peculiar needs of the applicant, and to give sufficient time to allow the business to become firmly established.

* See the booklet "Financing New Industries in Canada" prepared by Industrial Development Division, Dept. of Trade and Commerce, Ottawa, available from Queen's Printer, price 30c. (1) A bulletin is available entitled "The Industrial Development Bank" from this organization at Montreal, Toronto, Winnipeg or Vancouver.

After the cannery has become established, one of the soundest methods of obtaining additional funds for further expansion is through the use of retained profits. This means profits are invested in the business in the form of additional land, buildings, equipment, or the improvement of existing buildings and equipment.

This form of adding Fixed Assets is easier to accomplish when policy is in the hands of a single proprietorship or a few shareholders. Investors interested in dividends may not be agreeable to a policy of returning profits to the business.

Regardless of how funds may be obtained *expansion must be watched carefully*. Too many companies have failed through expanding the plant at the expense of Working Capital or through ignoring the importance of a sound liquid position.



Part II

MANAGEMENT PROBLEMS

RECORDS

THERE is no one phase of operating small canneries that is more universally disliked by the average small canner than that of keeping adequate records.

However, the canner must have proper records to provide necessary data for the following:

1. The Bank
2. The Workmen's Compensation Board
3. The Unemployment Insurance Commission
4. The Income Tax Department
5. The Investors
6. The Management

Bookkeeper

Although an adequate system of keeping records is an absolute necessity it does not follow that the small operator should turn himself into a bookkeeper and by so doing neglect other phases of his operation. In most cases he can render a far more important service by concentrating his energies on other phases of managerial duties. If the business is small the canner may be able to so arrange his work that he can devote some time to record keeping. As the business grows, and plant management calls for a greater portion of his time, the actual keeping of records by the manager is "penny wise and pound foolish."

In turning over the actual keeping of records to another person the canner should not lose contact with this phase of his business. He should be familiar with the fundamentals of bookkeeping and regardless of how the records are kept, be able to get from them any information desired without difficulty.

Part-time Bookkeeper

In most districts the services of a part-time bookkeeper are available. Very often a retired business man looking for partial employment will undertake to keep the books for a limited number of business firms. For a small cannery the services of such a part-time bookkeeper might prove adequate.

Some districts have firms that specialize in keeping books for businesses not large enough to employ a full-time bookkeeper. These firms keep the books up to date, and prepare all government returns as part of the regular service. Auditing firms in addition to making regular audits frequently maintain services for keeping books and preparing all government returns for the small business proprietor.

Choice of System

The kind and extent of the information required by the canner will determine the type of system to use. It should be as simple as possible while providing the information required. There is much more danger of having the system too complicated than too simple.

Journal System—The Journal System is the simplest method of keeping records. It is in effect a daily diary. All transactions that take place during the day are entered in a suitable book. These entries are later transferred to other more permanent and classified records.

While the Journal System is doubtless the simplest of records it is likely to be the least efficient, since there is no method of checking entries. Whether the Journal is complete and accurate depends on the memory and accuracy of the individual who makes the entries. The Journal System can be quite satisfactory but only if sufficient time is taken to ensure accuracy and completeness of entries. Usually the time required to accomplish this might just as well be employed on a more fool-proof method of keeping records.

An example of a page from the Journal of a small canner is given in Fig. 1.

August, 1952			
		\$	c.
23	Purchased 3 tons of Peaches from J. Thomas @ 80.00 per ton. Paid by cheque, ck. No. 125.....	240	00
	Shipped 50 cs. 24/20 Choice Peaches to Model Wholesale @ 2.00 per doz.....	220	00
	Paid Lucy Brown wages, 82 hrs. @ 80c., Cash.....	65	60
	Paid Coast Paper Co. for cartons, ck. 126.....	125	60
	Freight on Sugar, Cash.....	16	32
	Postage stamps, Cash.....	2	00
	Hauling shipment to station—city express ck. 127.....	6	65

Figure 1. Example of Page of Small Canner's Journal.

The Voucher System—The use of the Voucher System of preliminary records is generally employed by those who desire an accurate and complete record of daily transactions. Usually the vouchers are numbered consecutively so that missing records may be easily detected. Completing vouchers in duplicate provides a ready check for accuracy. For example, produce delivered to the plant would be recorded on a receiving slip (a voucher) in duplicate. The person delivering the produce as well as the person receiving it would have a record of the transaction.

If vouchers are to form the basis of a preliminary system of records the size and style will depend on the information required by the canner.

Readily Printed—Whether office forms are printed by the local printer or by an outside firm there are advantages in choosing forms that are uniform, and in a size and style that can be printed readily by the firm handling the job. There will be less delay in getting the job done. Any printing that calls for special type faces or sizes of paper usually means delay as well as additional cost.

Most printers carry a wide variety of type faces. The canner should have no difficulty in selecting one that suits his purpose. Selection of style of type is unimportant provided it is a style that the printer normally carries. Selection of size of form is of more importance. These should be of a size that can be cut without waste from stock sizes of paper and at the same time lends itself to ready folding, mailing, and filing.

Readily Mailed—This may appear to be of minor importance. However, odd sized forms may call for special sizes of envelopes. The standard small envelope is No. 8, and measures $3\frac{1}{2}$ by $6\frac{1}{2}$ inches. The standard long envelope, No. 10, measures $4\frac{1}{4}$ by $9\frac{1}{2}$ inches. Any deviation from these calls for either an unusual sized envelope or an awkward fold. Envelopes of unusual size are more costly.

Readily Filed—Filing cabinets come in two standard sizes. The smaller size is built to accommodate the standard letter, size $8\frac{1}{2}$ by 11 inches. The larger size takes the standard foolscap page $8\frac{1}{2}$ by 14. Filing folders are made up to take these two sizes.

Office forms should conform to the standard size filing system. Very small forms are apt to be lost in the file. Forms larger than standard size mean awkward folding to fit files.

Forms Needed—The number of forms needed will depend on the detail required, but they should cover all ordinary plant transactions. Forms for the following are suggested:

1. Purchase of raw materials
2. Sales
3. Wages
4. Receipts

Purchase Forms—The average small canner wants to know what his various raw materials are costing him. He wants ready access to his costs of cans, sugar, labels, fruit, vegetables, etc. To devise a form covering each of these would result in needless duplication. A simple purchase form will cover

ordinary requirements. Size 7 by $8\frac{1}{2}$, which cuts with very little waste from a standard sheet, folds to fit a No. 8 envelope by bringing bottom to top and then folding right side over sufficiently to fit the envelope. An example of a Purchase Form is given in Fig. 2. For economic reasons the Delivery Slip may be used by typing or stamping in below the name of the firm, "please ship us the following."

Number—On the forms the space for the number is placed in the upper right hand corner so that it can be seen quickly when checking through the files. For ready reference numbers should run in consecutive order. To differentiate the Purchase Forms from Invoices or Wage Forms it might be well to adopt a prefix letter, for example "S" denoting Supplies.

Department—Opposite this heading the name of the department against which the material is to be charged should be entered. The number of departments set up will depend on the extent to which charges are to be broken down.

Smith Canning Co., Fruitlands, B.C. To 				No. _____ Date _____ Dept. _____	
Quantity	Grade	Material	Unit Price	Dr.	Cr.
1 ton	A	Peaches	70.00		

Figure 2. Example of Purchase Form.

The following departments are suggested:

1. Bank
2. Fruit
3. Vegetables
4. Cans, Cartons, Labels

5. Sugar, Salt, etc.
6. Heat, Light, Fuel
7. Freight and Express In
8. Freight and Express Out
9. Wages and Salaries
10. Office Expenses
11. Miscellaneous

Supporting Documents—In many cases it is necessary to complete the details called for in the body form. Thus on an Invoice for cans purchased it is necessary to fill in only the number, the date, and the department. The Invoice received from the supplier should be stapled to the Purchase Form ready for filing in numerical order.

Duplicate Copies—In the case of Purchase Forms duplicate copies are often needed for purchase of fruits and vegetables if such are delivered to the plant by local growers. The original may be given to the person who delivers the produce, while the duplicate copy becomes the cannery record. Not only does this system provide a record for producer and canner but it cuts to a minimum opportunities for argument over weights and grades. At the time of delivery both grades and weights are filled in on the Purchase Slip. The time to settle differences, if there are any, is when the produce is delivered, not afterwards.

Invoice Forms—The form 7 by 8½ inches suggested for Delivery and Purchase Vouchers should be large enough for the average invoice. Despite common practice ruled forms are to be avoided if possible, in order to lower costs.

The type of Invoice depends on the information required by the buyer and the seller. Fig. 3 illustrates a satisfactory invoice form for most purposes.

Number—For ready reference, and to keep the records straight, all Invoices should be numbered. It is not necessary to go to the extra expense of having the printer number the forms consecutively. The loss of a form or errors in typing usually mean destroying the sequence of numbers. With very little extra labor numbers may be typed at the time the form is completed.

Since the canner's pack-year seldom corresponds with the calendar year, cannery employ a letter or a number as a prefix to indicate the pack-season from which the goods are drawn. Thus an invoice bearing the number 52-147 would indicate to the canner the position of the invoice in his files and that the goods were from the 1952 pack.

To—The name of the firm to be charged with the goods follows this heading. This entry should correspond with the name of the account as entered in the ledger. In some instances chain stores and wholesalers have goods shipped to branches but accounts are charged to head office. In such cases the name and address of the head office should appear in this space.

Date Shipped—The date on which the goods were shipped is shown here. This information is most important to both buyer and seller. From it buyers know when to expect arrival of shipment and can arrange warehouse space to accommodate the new stock. In the event of shipments being delayed in transit it provides the buyer with information for checking with transportation companies.

Buyer's Order Number—Most buyers issue orders bearing numbers. Such firms insist that the Purchase Order number be shown on the canner's invoice before the accounting department will pass the invoice for payment. Time and effort can be saved if the buyer's Purchase Order number is shown on this invoice.

Discounts—Many canners do not print discounts on the face of the invoices depending on the method of business followed. If special discounts for contract or quantity are offered to some buyers the canner may prefer that such discounts do not appear on the face of the invoice. On the other hand, if a uniform system of discount is offered to the trade generally, there is no reason why they should not be printed with the other items on the invoice. Where the list price, only, is shown on the Invoice, provision must be made in the canner's books for discounts granted. If the Invoice shows the net after the discounts have been subtracted then the canner must insist that payment be made in accordance with the terms of the discount. Most buyers today are anxious to earn their discounts and will pay when the account comes due.

Swell Allowance—Here again practice varies with various canners. Some firms insist that the buyer return spoiled labels in support of claims for goods damaged as the result of Swells or Leakers. On a huge volume of top quality goods produced under rigid control a saving might be effected by this practice. For the average small canner it is likely the saving effected by paying only on actual claims would be more than off-set by the extra trouble in keeping records. Granting Swell Allowance has become a well-established practice. The usual allowance is one-quarter of one per cent.

Duplicate Forms—Most buyers now require Invoices in duplicate. Where goods are sold to chain stores or wholesale firms with branches, not only does the head office require the invoice in duplicate but the branch or store to which the goods are shipped usually asks for a copy. Therefore, if the requirements of the buyer are to be met and the canner is to have a copy for his own records, the original and three copies of the invoice are required.

Wage Forms and Time Cards—Continuous and accurate records are necessary for Workmen's Compensation and Unemployment Insurance purposes. Several types of forms have been developed by stationery firms. These may be used or the canner may modify them to suit his own needs. A form 7 by 8½ inches is suggested. An example of a Time Card is given in Fig. 4.

Credit Notes—From time to time it will be necessary to issue Credit Notes covering adjustments on Invoices, etc. The regular Purchase Form prefixed by a letter such as "C" denoting credit, may be used for this purpose.

Alternatives—While one standard form for purchases, orders, and credit notes may be used and a certain economy thus effected, there are objections to this practice. First, care must be taken to see that the forms are properly numbered and prefixed. Secondly, there is a possibility that, when filing, the forms will be placed in the wrong file since they are all similar in appearance. These objections can be overcome if the printer uses a different colored paper for each of the forms. As an additional safeguard the printer could insert a single line making clear the purpose for which the form is intended. Thus the

heading "Purchase Form" would appear across the top. The original might be yellow, the second copy pink, and the third blue. The heading "Credit Note" would appear at the top of these forms. The original might be pink with one copy yellow and a second copy, if needed, blue. There is no need to head the Invoice Form as it is usual practice for the original to be white. Second, third, and fourth copies could be in other colors.

PERMANENT RECORDS

The Synoptic

The various vouchers previously explained do not constitute the complete set of records for the small canner. They are but one step in the system. They form the basis of the records entered into the Synoptic, a consolidated record of business transactions.

Synoptics may be purchased in a great variety of sizes and styles to suit the individual need of the business. Since it is in reality a transfer book for the various vouchers pertaining to the business, the number of columns needed will correspond to the number of vouchers employed. The small canner should aim to keep the Synoptic simple and at the same time sufficiently itemized to give him the figures needed for a correct interpretation of what is happening to the business. The Synoptic is the foundation record of the so-called double entry system of keeping books. It gives a general picture of the business.

Date	Item	Record No.	Dr.	Cr.
Aug. 28-52	H. Brown	D-75	\$	\$ 160.00

Figure 5. Example of First Entry in Elementary Synoptic.

The simplest form of the Synoptic is little more than a diary in which business transactions are entered. However, it differs from the simple diary previously explained in two important respects. First, entries need not be made at the time of the transaction. If vouchers are used these are the preliminary records and the Synoptic entries may be made from these at a more convenient time. Secondly, the Synoptic contains two entries for every transaction. One of these is a debit entry while the other is a credit entry. For example, if H. Brown delivers two tons of peaches to the cannery it is presumed that a proper Purchase Form or Delivery Slip would be prepared at time of delivery. At some later date this Delivery Slip would form the basis of the entry in the Synoptic.

Such a simple Synoptic would be ruled to show date, item, voucher number, and have both a Debit and a Credit column. The first entry would then appear as in Fig. 5.

The record as it stands in the foregoing shows that on Aug. 28, 1952, H. Brown earned a credit of \$160.00, details of which may be obtained by referring to Delivery Slip No. 75. The entry as it now stands is not complete. Since it is a Credit entry, there must be a Debit entry. H. Brown is credited with the item and since it represents fruit purchased for the cannery, Fruit is debited. The complete entry would appear as in Fig. 6.

Date	Item	Record No.	Dr.	Cr.
			\$	\$
Aug. 28-52	H. Brown	D-75		160.00
Aug. 28-52	Fruit	D-75	160.00	

Figure 6. Example of Second Entry in Elementary Synoptic.

The disadvantage of this type of Synoptic is evident. Every item has to be written out twice and in posting from the Synoptic to the Ledger all the individual items must be entered. In many cases, totals for a given period are all that are required for Statement purposes. Thus during a given month there may be twenty or more items of expense charged to Incoming Freight. Considerable time and space maybe saved if these can be carried forward to the Ledger as a total rather than as individual entries, and the information obtained from this total is all that is needed to get a proper picture of the financial position of the cannery.

To accomplish this saving in time and effort, extra columns are added to the Synoptic. These are to accommodate entries where the canner is concerned only with totals. Thus there might be a column for Purchases, Freight Charges, Wages, Supplies, Sales, etc. Carried to its logical conclusion the Synoptic would contain a separate column for every class of expense and income. Such a book would be too cumbersome. Somewhere between the extremes of the two-column Synoptic and the multi-columned book lies the ideal for the small canner.

An example of a modified Synoptic that might answer the requirements of the average small canner is shown in Fig. 7.

Explanation—It will be noted that every item appears in two places, once as a credit entry, and once as a debit entry. A check on the accuracy of the entries may be obtained by adding the various columns. The total of the debit entries should be the same as the total of the credit entries. If these do not balance, an error in entry has been made.

Item 1—This covers delivery of fruit to the cannery by H. Brown. A Delivery Slip no. S-42 was issued to Brown at time of delivery. The number of this slip appears in the column headed "Record". The entries in this column enable the canner to go directly to his files and locate original documents supporting every entry. Brown was credited with \$14.00. This appears under the heading "General".

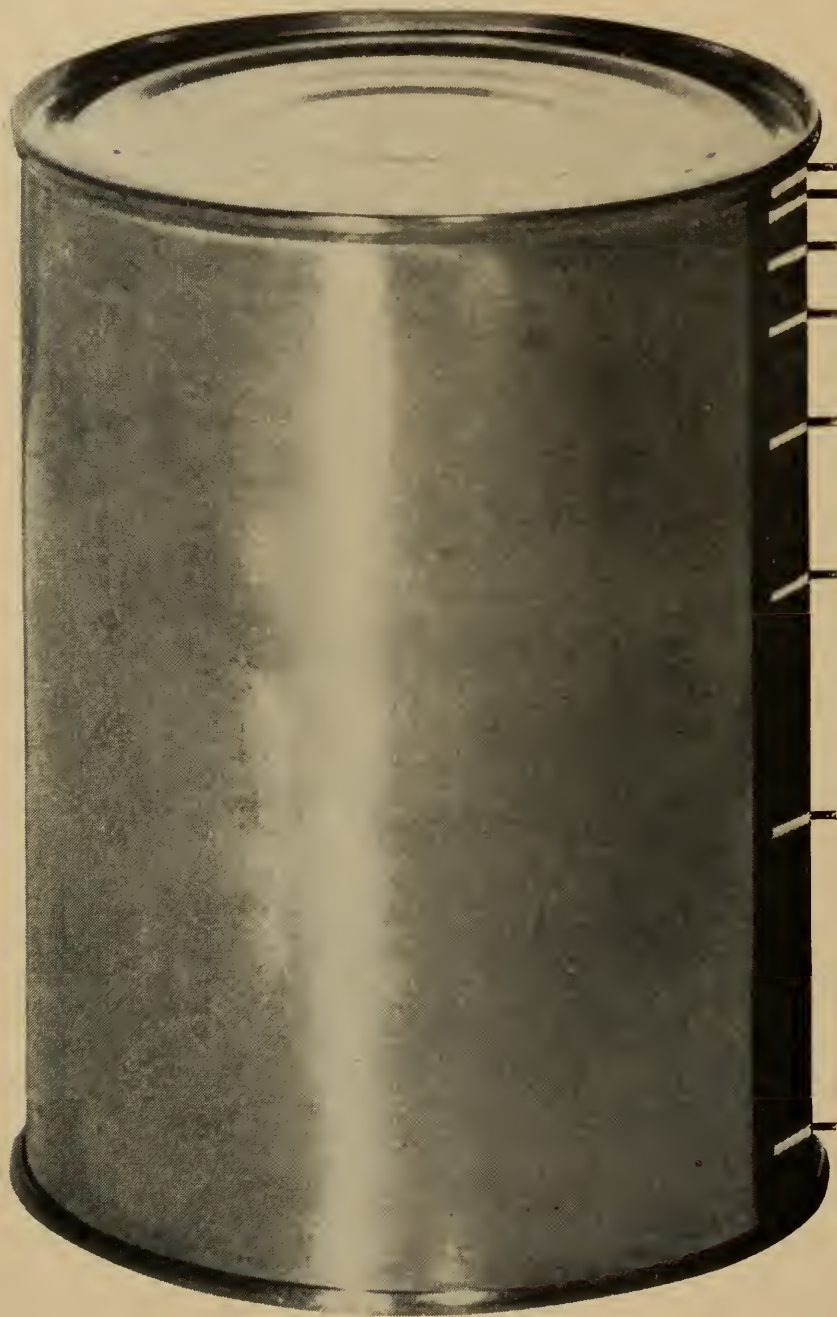
Date	Item	Record No.	Bank		General		Purchases	Exp.	Sales	
			Dr.	Cr.	Dr.	Cr.	Dr.	Dr.	Dr.	Cr.
Aug. 28	H. Brown	S-42	\$	\$	\$	14.00	\$	\$	\$	
28	M. Wholesale	52-54			56.00		14.00			56.00
28	Bank.....	C-42		65.20						
28	Wages.....	W-34						65.20		
28	Bank.....	C-43		15.20						
28	Freight.....	S-43					15.20			
28	M. Whls.....	D-56	75.00			75.00				
28	Can. Co.....	S-44				50.00	50.00			

Figure 7. Example of a Modified Synoptic.



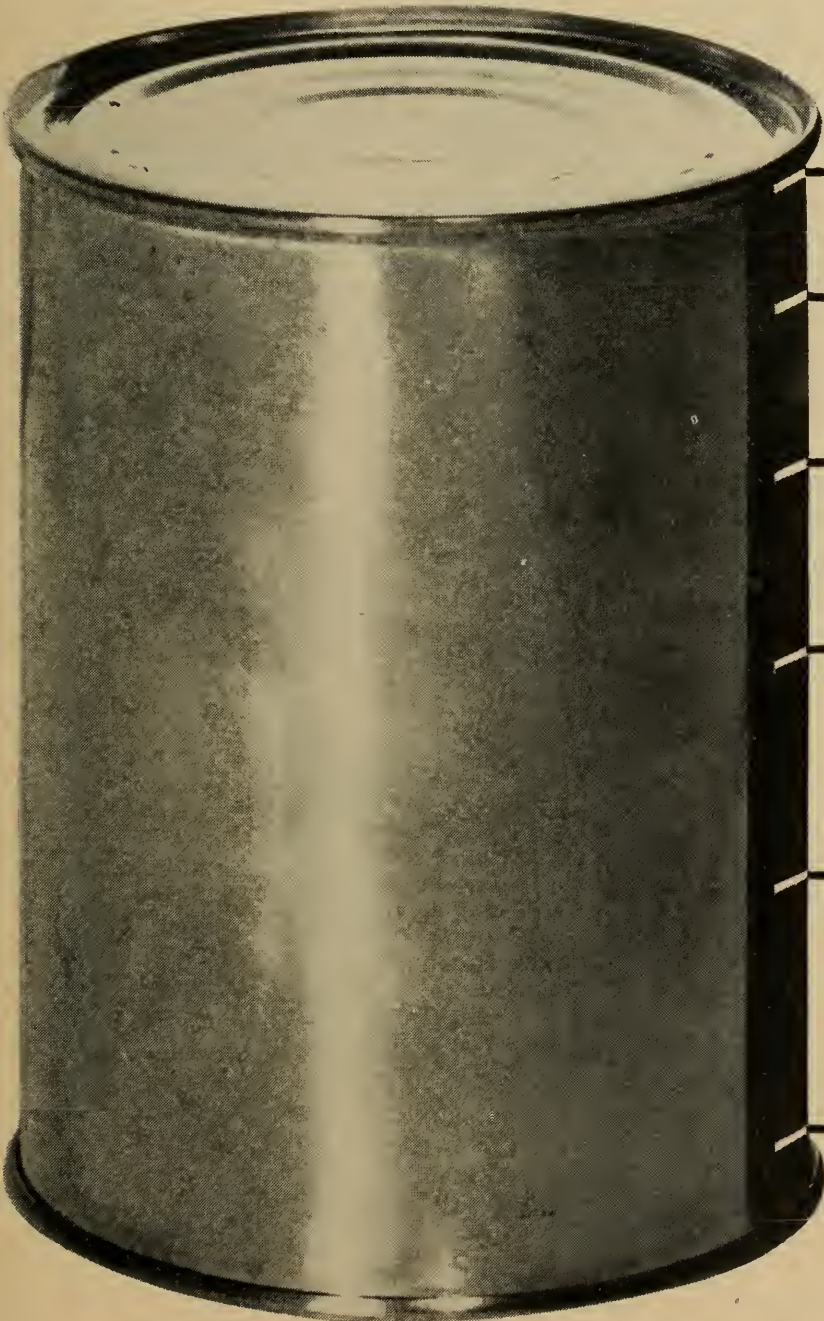
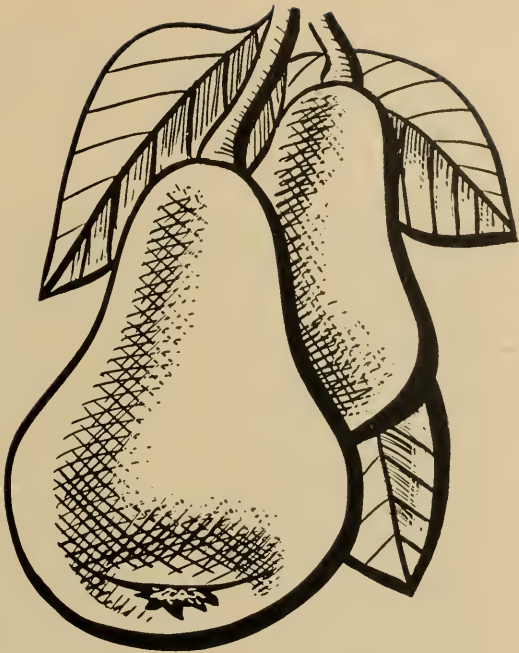
A. Representative Division of Costs
on PEACHES (halves)

20-oz. cans

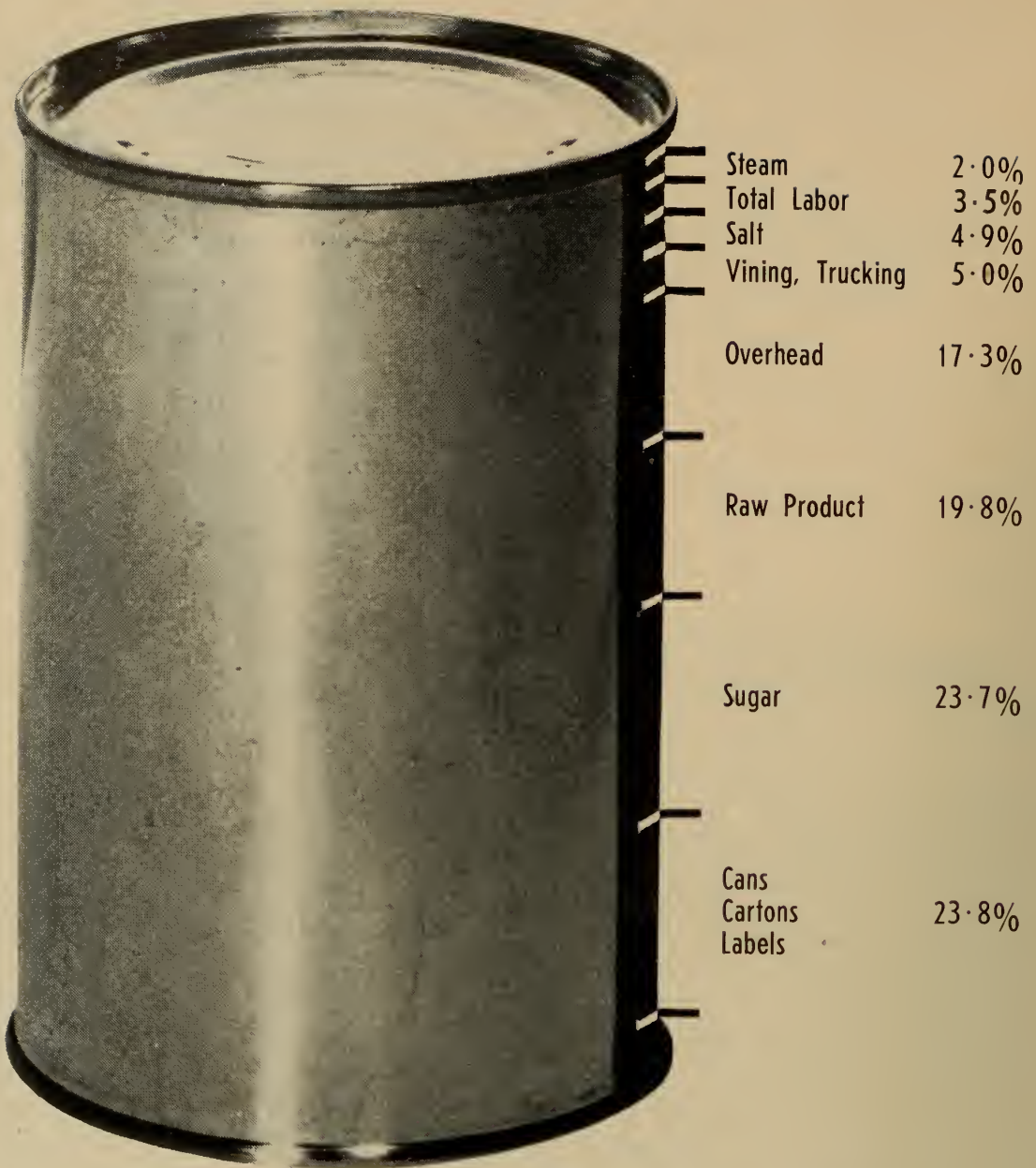


Trucking	1.4%
Brokerage	6.1%
Overhead	7.8%
Total Labor	14.7%
Sugar	14.9%
Cans Cartons Labels	24.0%
Raw Product	31.1%

B. Representative Division of Costs
on BARTLETT PEARS
20-oz. cans

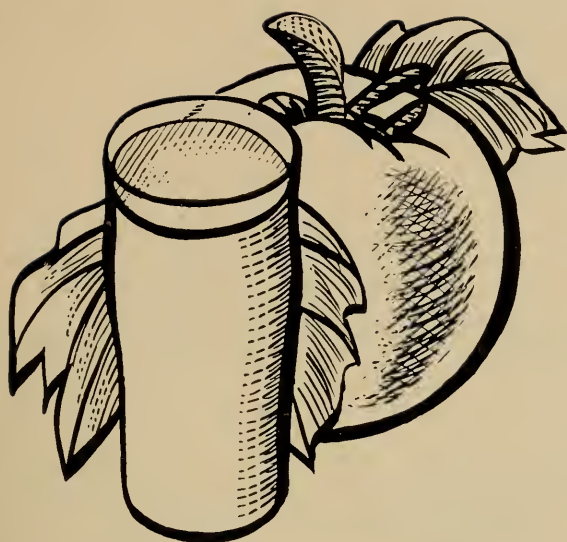


Sugar	10·9%
Cans Cartons Labels	16·0%
Total Labor	18·2%
Overhead	23·7%
Raw Product	31·2%

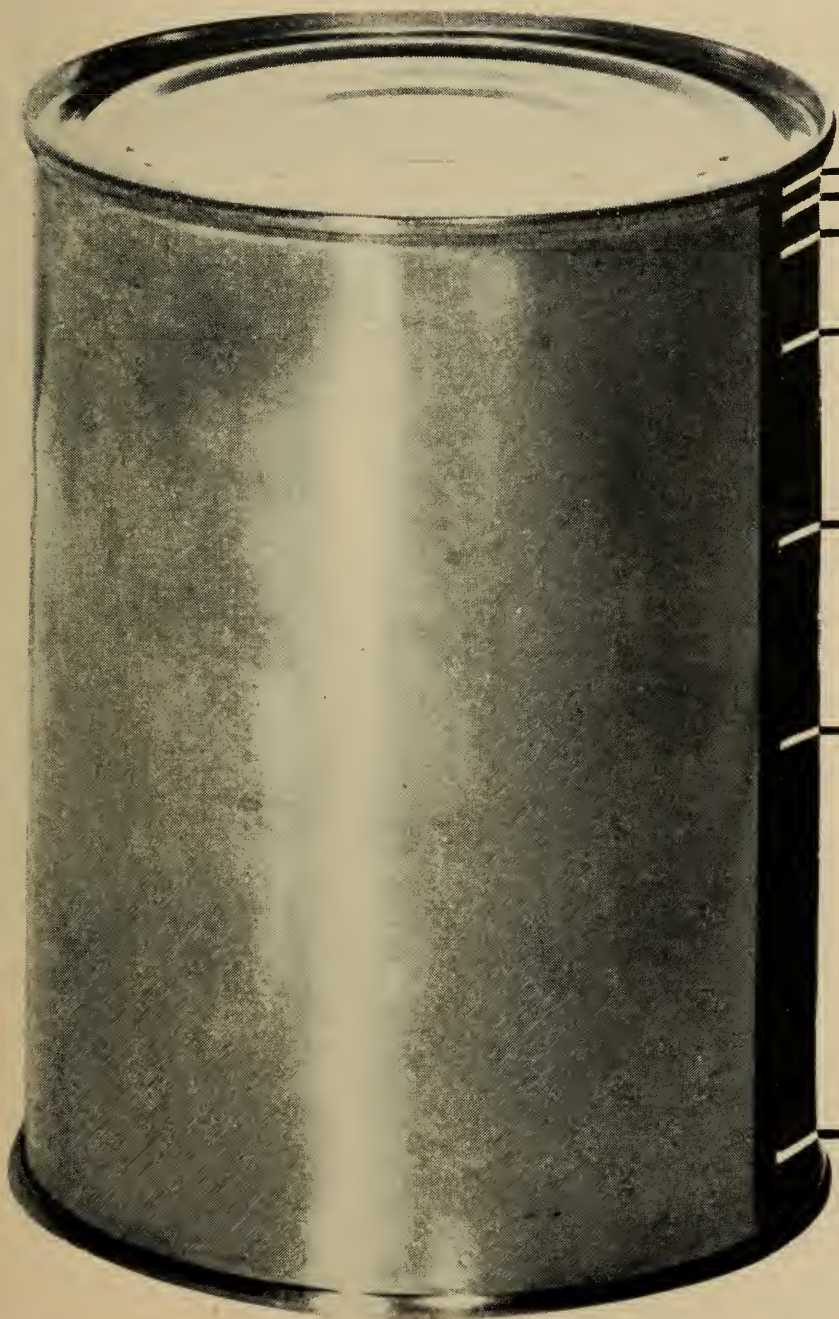


C. Representative Division of
Costs on PEAS
15-oz. cans

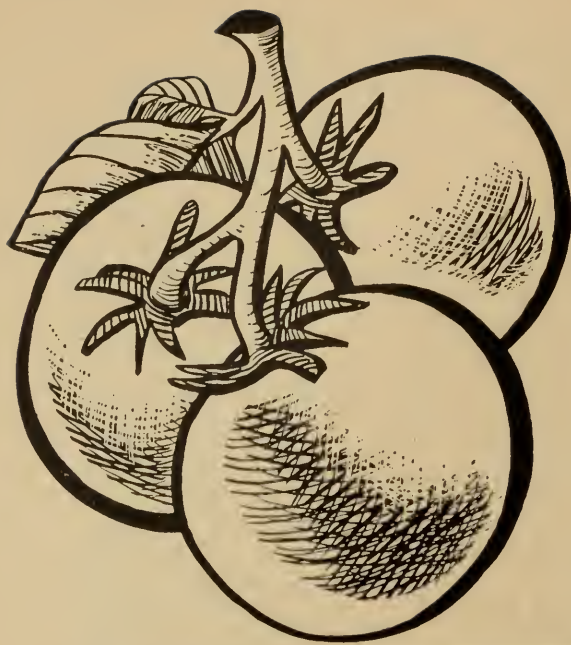




D. Representative Division of Costs
on TOMATO JUICE
20-oz. cans



Total Labor	1·7%
Brokerage	3·5%
Administration	7·0%
Overhead	22·0%
Raw Product	23·7%
Cans Cartons Labels	42·1%

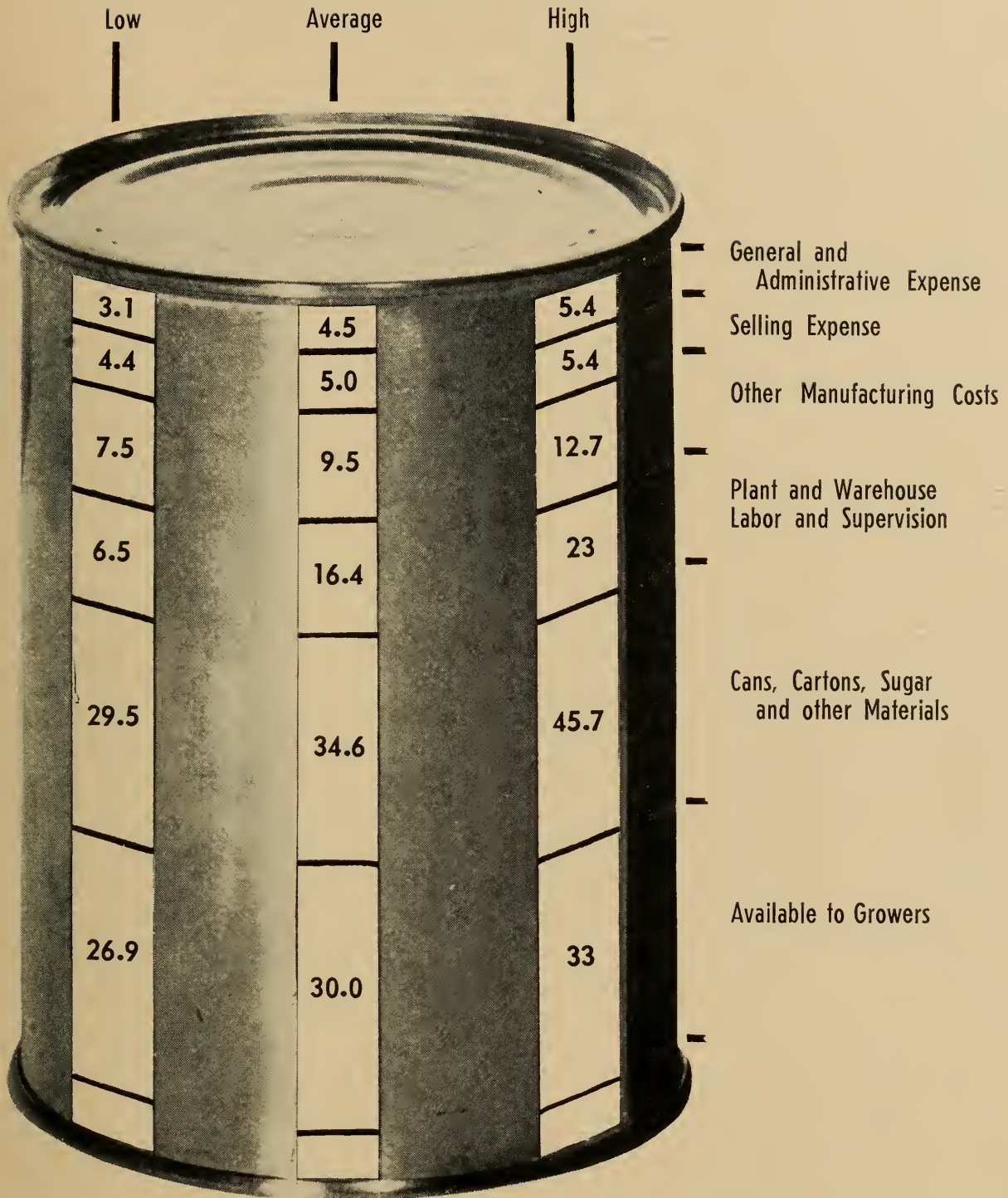


E. Representative Division of Costs
on WHOLE TOMATOES
28-oz. cans



Total Labour	18·1%
Overhead	23·2%
Raw Product	23·8%
Cans Cartons Labels	34·9%

F. PERCENTAGE OF TOTAL COSTS



An Average of Costs from Four Fruit and Vegetable Canners.
How do yours compare?

At the same time that Brown was credited with this fruit, "purchases" were debited for an equal amount, \$14.00.

Item 2—Fruit as per invoice 52-54 was shipped to Model Wholesale. This appears as a debit item of \$56.00 under the heading "General", and at the same time "sales" were credited with \$56.00.

Item 3—Nancy Dodge was paid \$65.20 wages. Since the details of her hours and rate of pay appear on the weekly Wage Records there is no point in setting up a separate record for her. The item appears as a cheque issued on the bank, C-42, and the bank is credited accordingly.

Item 4—Wages are debited with \$65.20 to offset the credit item under the heading "Bank". Details of the Wage Record may be obtained by referring to W-34.

Item 5 and 6—This covers a cheque, C-43, issued for freight paid out as per item 6 and record S-43. The Bank is credited and "Purchases" are debited.

Item 7—Model Wholesalers sent a cheque covering a previous shipment. This was deposited with the bank as per D-56. The Bank was debited with this sum, \$75.00, and Model Wholesalers was credited under the heading "General".

Item 8—An invoice for \$50.00 covering cans shipped from the Can Company was received. An "S" voucher was made out covering this delivery. This entry appears in the Synoptic as a credit to the Can Company and a debit of \$50.00 under Purchases.

Disadvantages—While the example given constitutes a very simple and direct Synoptic it has some obvious disadvantages. For example, all the purchases are entered in one column. By adding up the column at the end of the month the canner knows exactly what his total purchases were, but unless he goes back and picks them out item by item he does not know how much was spent for fruit, vegetables, cans, cartons, labels, sugar, fuel, power, light, freight, express, etc. For this reason many canners use a Synoptic carrying additional vertical columns for specialized entries.

Suggested Synoptic—The auditor or bookkeeper responsible for the books of the firm should be in a position to indicate just how many columns are needed in the synoptic. The following are suggested:

1. Date
2. Item
3. Record
4. Bank Dr. Cr.
5. General Dr. Cr.
6. Fruit Dr.
7. Vegetables Dr.
8. Cans, cartons, labels, etc. Dr.
9. Freight and Express In Dr.
10. Freight and Express Out Dr.
11. Miscellaneous Expense Dr.
12. Fuel and Power Dr.

13. Heat and Light Dr.
14. Wages, Salaries Dr.
15. Office Expenses Dr.
16. Sales Dr. Cr.

The Ledger

As stated previously the Synoptic serves as the consolidated record for all vouchers. The Ledger in turn becomes the consolidated record of all Synoptic entries. It is really more than a transfer book. It is a classified record of all transactions relating to the business. As such it becomes the permanent record from which all Financial and Operating Statements originate.

Form—Standard ledger binders and sheets may be obtained from any office supply firm. Since the purpose of the Ledger is to classify entries, standard binders are supplied with sectional dividers alphabetically tabbed. Binders are also constructed so that additional sheets may be inserted as needed.

Setting up the Ledger—There are three general types of entries that go to make up the ledger as follows:

1. Asset Accounts
2. Debit Accounts
3. Ownership Accounts.

The Ledger may not be divided into sections as indicated above but the accounts themselves will fall into one of these three groups. Since the Synoptic entries are transferred to the Ledger it follows that Ledger sections must be provided for these. With certain items it is necessary to transfer them to the Ledger individually. Others are transferred as totals, appropriate sections being provided for this purpose.

The Ledger is the source of material for the Auditor's statements, Profit and Loss Statements, Operating Statements, etc. Sections used in the Ledger, or the order in which they appear, is not of too much importance, but it is most important that the canner understand what the entries in the ledger represent, how they are determined, and how they can be used to obtain a clear picture of the condition of the business and its trends.

Balancing the Books

Both the Synoptic and the Ledger are checked for accuracy from time to time by balancing. Since both records are based on the Double Entry system the total of all Debit items should equal the total of all Credit items. If they are equal the books are said to be in balance. If they are not equal it is apparent that an error has occurred.

The Synoptic must be balanced before entries are transferred from it to the Ledger, a process known as posting. If it is out of balance there has been an error in entry, extension, or addition. In posting, a number of items will have to be handled individually, a duplication of the entries in the Synoptic. Others may be transferred in totals for a given period, such as a month. Entries representing debits or credits to individual firms will have to be transferred as individual items. Many entries representing items of expense such as wages, supplies, etc., can be entered as a total for the period.

Trial Balance

When the Synoptic and the Ledger are in balance the bookkeeper is ready to take off what is known as a Trial Balance. This is in effect a consolidated list of all Debit entries and all Credit entries. The Trial Balance forms the basis of further financial statements to show the position of the business.

FINANCIAL STATEMENTS

From the Ledger and the Trial Balance Sheet the information needed to prepare financial statements is obtained. It is usual to have the following statements:

1. Balance Sheet
2. Profit and Loss Statement

Need for and Importance of Statements

While bankers and auditors may be keenly interested in carefully prepared Financial Statements, the average small canner, failing to understand them, does not appreciate their significance. To many small canners Financial Statements are just a necessary nuisance demanded by the local banker, the Income Tax Office, and the Registrar of Companies. Financial Statements, may, however be of the utmost importance to the small canner and the following are essential to a clear understanding of the position of the cannery:

1. Total Assets and Total Liabilities
2. Current Assets and Current Liabilities
3. Profit and Loss
4. Operating Statement

These statements become increasingly valuable if they are prepared in such a manner that the period under study may be compared with previous periods.

Making Adjustments

While the Ledger forms the basis for all financial statements, actual items are the result of consolidations and adjustments. The latter is necessary to get a true picture of what has happened and is happening. What adjustments to make and how they should be made are usually left to the auditor.

The Balance Sheet

The usual Balance Sheet, Fig. 8, is a consolidated statement of all of the properties and monies invested in and due the business, as well as a consolidated statement of all the indebtedness of the business. The former are known as Assets and the latter as Liabilities. Thus the Balance Sheet becomes a statement of Total Assets and Total Liabilities.

Total Assets

According to their convertibility into cash Total Assets as shown on the Balance Sheet are divided into two classifications. These are:

- Current Assets
- Fixed Assets

SMITH CANNING COMPANY LIMITED
BALANCE SHEET

As at December 31st, 1952.

Assets		Liabilities	
<i>Current:</i>		<i>Current:</i>	
Cash in bank.....	\$ 2,500.00	Bank Loan.....	\$ 16,650.00
Accounts Receivable.....	5,000.00	Accounts Payable.....	900.00
Inventory—Finished Goods.....	50,000.00	Owing to Directors.....	300.00
Supplies.....	3,000.00	Income Tax.....	600.00
	<u>53,000.00</u>		
	60,500.00		<u>18,450.00</u>
<i>*Fixed:</i>		<i>Capital:</i>	
Real Estate.....	2,000.00	Issued and fully paid:	
Buildings and Equipment.....	15,000.00	500 shares of \$100.00 each..	50,000.00
Less Depreciation.....	<u>2,000.00</u>		
	13,000.00		
	<u>15,000.00</u>		
<i>Deferred Charges:</i>		<i>Profit:</i>	
Insurance Unexpired.....	700.00	December 31, 1951	5,000.00
Inventory—Spare Parts.....	<u>250.00</u>	December 31, 1952	3,000.00
	950.00		<u>8,000.00</u>
	<u>76,450.00</u>		58,000.00
			<u>76,450.00</u>

* Figures in this section are taken from the schedule of Fixed Assets and Reserves which should include the names of items, Date of Purchase, Value New, Rate of Depreciation, Depreciated Value, Purchases and Disposals. The keeping of a Depreciation Account is of the utmost importance for Income Tax purposes.

Figure 8. Example of Balance Sheet.

Current Assets—Current Assets are defined as “assets available for the purpose of discharging current liabilities.” These represent that portion of the canner’s assets that vary from day to day and week to week. They would include the following:

1. Cash in the Bank
2. Petty Cash
3. Notes Receivable
4. Accounts Receivable
5. Canned Goods Inventories
6. Raw Products Inventories
7. Prepaid Expenses

Cash in Bank—As the heading suggests this item represents actual cash in the Bank available for the cannery.

Petty Cash—Very often small sums of cash are kept on hand in the office to pay items such as postage, express, etc.

Notes Receivable—This constitutes a record of notes due. They form part of the canner’s current assets but are actually not cash.

Accounts Receivable—Current invoices due and readily collectable are listed under this heading. Past due accounts not likely to be collected are listed as Bad Debts and are not included under Accounts Receivable.

Canned Goods Inventories—The usual practice in this connection is to list inventories of canned goods at actual cost. Many small canners list their unsold stocks of canned goods at current market prices. This gives a false picture of the plant’s financial position that may require some explanation to the banker.

Prepaid Expenses—Items such as prepaid insurance, prepaid taxes, etc., are shown under this heading. Reference to this section will enable the auditor to determine the position of the canner in respect to these items. If for example, insurance has been paid for a period of 3 years and only 6 months has elapsed since the insurance came into effect, a credit balance of unexpired insurance exists. This prepaid expense is properly considered as an asset.

Fixed Assets—The Fixed Assets are those items representing the permanent investment such as land, buildings, machinery and other equipment.

Depreciation

Items under the heading Fixed Assets are shown at actual cost. Depreciation at regularly accepted rates is deducted at the time the statement is made in order to arrive at the true value. Work will be saved if rates of depreciation correspond with those allowed for Income Tax purposes.

Total Liabilities

The figures shown under this heading tell the complete story of what the canner owes. It is a consolidation of all accounts owing by the canner. For ease in understanding, Total Liabilities are usually divided into two groups as follows:

1. Current Liabilities
2. Fixed Liabilities

Current Liabilities—The day to day, and week to week liabilities are shown under this heading. Usually these are classified as follows:

1. Wages
2. Fruit, Vegetables, etc.
3. Cans, Cartons, Labels, etc.
4. Freight and Express
5. Heat, Light, Fuel
6. Telephone and Telegraph
7. Taxes
8. Interest on loans, bonds, etc.
9. Payment of loans, bonds, etc.
10. Miscellaneous

Fixed Liabilities—Liabilities of a more or less fixed nature are included in this group, and are as follows:

1. Insurance
2. Mortgages

Proprietorship

Provision is made in the Financial Statement for a picture of proprietorship. Where the canner is sole owner these figures will indicate his equity in the business. If the business is held by shareholders then this portion of the Financial Statement shows their equity.

Owner's Equity

The amount of money invested in the business by the owner or owners is usually shown as a liability under the heading of Capital Stock.

Reserves

However sound it may be to set aside reserve sums for contingencies, not many small canners are in a position to do this. If such an account is set up it should appear as another item under Liabilities.

Surplus

If the Total Assets exceed the Total Liabilities, as they should, the business has a surplus. This surplus is the difference between the two. The surplus is due the owner or owners and is therefore listed as a Liability.

Profit and Loss

A statement of Profit and Loss is a statement of operations for a given period (Fig. 9). For ease in handling, the various expenses and incomes are consolidated. The degree to which the consolidation is carried is a matter for management to decide.

SMITH CANNING COMPANY LIMITED

PROFIT AND LOSS STATEMENT

For the year ended December 31, 1952.

Sales:.....			\$ 64,000.00
Cost of Sales:			
Inventory December, 31, 1951.....	50,000.00		
Purchases.....	35,000.00		
		85,000.00	
Less Inventory December 31, 1952.....	53,000.00		
			32,000.00
			32,000.00
Expenses:			
Auditing.....	250.00		
Donations.....	100.00		
Fuel.....	500.00		
Hauling.....	750.00		
Insurance.....	900.00		
Interest and Exchange.....	1,000.00		
Licences and Fees.....	100.00		
Light, Power and Water.....	150.00		
Postage.....	75.00		
Printing and Stationery.....	200.00		
Rent (Equipment).....	650.00		
Repairs.....	1,000.00		
Salaries.....	4,000.00		
Sundries.....	500.00		
Supplies.....	850.00		
Taxes.....	225.00		
Telephone and Telegraph.....	350.00		
Travel.....	500.00		
Truck and Car.....	1,000.00		
Unemployment Insurance.....	100.00		
Wages.....	13,000.00		
Workmen's Compensation.....	200.00		
		26,400.00	
Depreciation.....	2,000.00		
Reserve for Income Tax.....	600.00	2,600.00	29,000.00
Profit for year.....			3,000.00

Figure 9. Example of Profit and Loss Statement.

Method of Employing—The consolidated report indicates the progress of the business as a whole. If the figures presented for any given period are prepared to allow comparison with previous periods, the value of the report is increased considerably and the management is in a position to determine exactly where the profits and losses occur. A further step would be to present results in terms of percentages as well as actual figures. When this picture is obtained the next step is to get the story by departments. The material used to prepare the consolidated report forms the basis of the various departmental reports.

Income

The small canner's main source of income will be from the sale of canned goods. From the gross sales must be subtracted all discounts and allowance granted, giving the Net Sales. To determine the profit and loss on these sales the canner must know what his costs of production were for the goods sold.

Cost of Goods Sold

As the first entry under this heading the canner should use his Opening Inventory. To this is added the Total Purchases and Freight In. The total of these three items gives the total costs for the goods sold during the period covered by the statement.

Expense

In addition to knowing what Profits or Losses were during a given period the canner should know what contributed to the final result. In order to get this information expenses are broken down into

1. Operating Expenses
2. Selling Expenses
3. General Expenses

Operating Expenses—Operating Expense records must be carefully kept. By using a similar form through each processing season the packer is enabled to compare one year's pack with another. This is very important.

Operating Expenses should also include the cost of damaged, broken, or otherwise spoiled supplies. For instance 24 labels are sufficient for the average case of goods. Due to spoilage of labels on the labeller it may be more accurate to charge 25 labels to a case. Similarly damaged cans should be included in costs. Raw produce may vary in quality resulting in fewer cases per ton and higher labor costs.

An accurate picture of Operating Costs and Overhead is helpful in preparing the budget for the next season, and it reveals the breaking point between profit and loss. Costs may be calculated per case or per 1,000 cans. The most immediate use, however, is that it provides a comparison from day to day. Thus, a form covering these variables in daily operation that can be completed quickly is of real value. In some plants it is the established policy to have figures available to the plant manager by 10 a.m. on the day following. Fig. 9a and 9b show examples of forms that cover the more frequent items in Annual Overhead and Operating Costs.

ANNUAL OVERHEAD

	Totals for year Dollars
Advertising	_____
Audit and Legal	_____
Bank Discount and Interest	_____
Building Rental	_____
Cold Storage of Fruit and Storage of Canned Goods	_____
Depreciation _____% Building	_____
_____% Equipment	_____
Director's Fees	_____
Donations	_____
Freight on Incidentals	_____
Fuel	_____
Insurance (Building)	_____
Insurance (Stock)	_____
Interest on Investment _____%	_____
Licences and Taxes	_____
Light and Water	_____
Loading Cars (Shipping)	_____
Machine Rental	_____
Miscellaneous	_____
Office Supplies	_____
Postage	_____
Printing	_____
Repairs (Labor and Material)	_____
Salaries	_____
Selling Costs	_____
Stationery	_____
Telephone and Telegraph	_____
Travelling and Field Service	_____
Unemployment Insurance	_____
Workmen's Compensation	_____
Total overhead cost	=====
$\frac{\text{Total overhead cost}}{\text{Total season's pack in cases 20-ounce*}} = \text{Overhead per case}$	_____

Figure 9a. Example of Annual Overhead Statement.

Selling Expenses—A further breakdown of this group is suggested as follows:

- 1. Salaries and Commissions
- 2. Advertising
- 3. Freight Out

Salaries and Commissions—All Salaries and Commissions directly chargeable to selling expenses are entered under this heading. If sales are through a broker then the broker's fees would be shown.

*See footnote with Figure 9b., page 47.

OPERATING COST

Product_____	Raw produce used.....	_____ lb.
Size of can_____oz.	Pack, Fancy.....	_____ cases
	Choice.....	_____ "
	Standard.....	_____ "
	Total.....	_____ "
	Pounds per case....	_____
		Cents
Cans including freight and 4% spoilage.....		_____
Cartons including freight.....		_____
Fruit including freight or hauling.....		_____
Labels including freight.....		_____
Labelling.....		_____
Female Labor.....		_____
Male Labor.....		_____
Sugar including freight.....		_____
Per cent of foregoing reserved for losses.....%		_____
* Overhead per case.....		_____
Total cost per case.....		_____
Selling price.....		=====
Cost.....		_____
Difference.....		=====

* The overhead given in the foregoing equalizes this cost over all the items canned. When the season is completed a truer figure may be obtained by taking the number of days run on a product as a percentage of the total days operated in the season. This percentage multiplied by the total overhead would give the portion of the overhead that should be carried by the product in question. This amount of overhead divided by the number of cases would give the case overhead. For instance, a cannery operated 100 days, 10 of which were spent canning prunes. The total overhead for the year was \$20,000; 10 per cent then or \$2,000 should be carried by prunes. In 10 days the canner packed 20,000 cases. His overhead per case then is 10 cents

Figure 9b. Example of Operating Cost Statement.

Advertising Charges—All expenses in connection with advertising should be entered in this section. Goodwill advertising that becomes necessary at times should be shown here.

Freight Out—All expenses in connection with shipping are usually shown under the heading "Freight Out".

General Expenses—For further analysis General Expenses may be divided into the following groups:

1. Office Salaries
2. Office Supplies and Expenses
3. Taxes and Licences
4. Workmen's Compensation
5. Insurance

6. Depreciation
7. Bank Discount and Interest
8. Telephone and Telegraph
9. Audit

The breakdown of expenses as given previously is largely an arbitrary one. Management may decide that a clear conception of costs can be determined by employing divisions other than these. The actual heading is not too important as long as the figures give a clear picture.

Comparative Statements

If the canner understands the various entries in the Ledger he should be able to obtain from it a series of comparative statements on Costs or Sales of considerable value. On the other hand if the keeping of books is the function of an employee in the office then the canner should be able to obtain exactly what he requires in the way of Comparative Statements from this staff. Such statements should be current. A statement six months old is of little value in spotting inefficiencies. As indicated previously the value is enhanced if the results are expressed in two ways, as actual figures and as percentages.

The records will supply information for an endless number of Comparative Statements, and the canner may select those that he considers of most value to him. The following are offered as suggestions:

1. Cost of Raw Materials
2. Cost of Selling
3. Cost of Processing
4. Sales Returns

Because of ever-changing economic conditions it is necessary to forecast costs before an operating season, to determine if it is worthwhile to can a certain commodity. If costs are set up in a similar form from season to season comparisons and appraisals are facilitated.

WORKING CAPITAL

Aside from the capital required to purchase land, buildings, and machinery, certain amounts will be necessary to buy raw products, for payment of wages, etc. Money for this purpose is known as Working Capital.

Many small canners are super optimists and commence with the idea that their savings will be used to purchase land, buildings, equipment, etc, and to operate until there is a profit. Often Capital Costs are higher than estimated. Savings thus disappear faster than expected with the result that there is a shortage of Operating Capital.

Cost Forecasts-Budget

Cost forecasts as mentioned under Comparative Statements are also helpful in estimating the amount of money needed to properly finance certain periods. In addition to forecasting expenses the Budget serves as a guide in plan-

ning, and as a yardstick for measuring results. The Operating Statement at the end of a given period compared with the Budget prepared for that period gives the canner a basis for measuring accomplishment.

The Budget indicates the estimated amount of Working Capital required for a given period. If the small canner finds that his own resources are not sufficient to cover his need for this period he must consider other means of obtaining short-term loans. Two sources that are usually open to the small canner are

1. Private Loans
2. Bank Loans

Private Loans—If a short-term loan is to be obtained from private sources rather than a bank or a regular financial institution, the canner should carefully consider the Rate of Interest, the Security required, and the Effect on Credit.

Rate of Interest—A rate of interest higher than the current rate charged by banks or other financial institutions making a business of short-term loans should be offset by substantial advantages from the private loan.

Security Required—The security required to protect a private loan should be in line with the usual security demanded by banks, and other loaning institutions.

Effect on Credit—Banks and other financial institutions that make a business of lending money are interested in all commitments a business may have made. Frequently a canner unwittingly gives collateral covering a small loan that could be used to better advantage for a larger loan. This is an important aspect of borrowing. A carefully prepared Budget will indicate the extent of the canner's needs in borrowing Operating Capital. It is usually to his advantage to negotiate a loan for all his requirements from one source.

Bank Loans—The local bank is the small canner's customary source of short-term loans. Many small canners have previously established banking connection through their farm operations, and it would seem logical to place their canning business with the same bank. On the other hand, it should be recognized that banks specialize in different industries and the canner should endeavor to find a bank that is familiar with problems peculiar to canning. The bulk of operating expenses fall due in a very limited period. It is not possible to spread them out over a period of months as is the case with some types of business. Sales on the other hand are not made in a single period but tend to extend over a number of months. Indeed, in many cases portions of stocks are carried over from one pack period to the next. This condition should be taken into consideration by the banker when setting up the cannery loan. If a choice of banks is available it is desirable to choose the bank or banker who fully understands and appreciates canning problems.

The canner on his part should recognize that the local banker is not free to make loans as he sees fit. The bank has very definite requirements in the way of personal references, business experience, and collateral. In addition the local banker is limited as to the amount that he may loan. When a certain fixed figure is exceeded he must refer the application to his provincial office. The

provincial office is likewise limited in the amount it can loan and beyond a certain figure the application must be forwarded to the head office for approval. All of this means complications and delay. The canner should not expect to walk out of the bank on his first visit with everything arranged. Naturally the stronger the liquid position of the canner, the less problem there will be in obtaining a loan.

Bank Requirements—Before making a loan the bank will want to be satisfied on the following point:

1. The moral responsibility of the applicant;
2. The ability of the applicant to repay the loan in the time specified;
3. The applicant's belief in the business as evidenced by the amount of his own money invested, and,
4. That sufficient collateral is available to protect the loan in the event returns do not materialize as expected.

Collateral—While the bank is keenly interested in the moral responsibility of the applicant it is primarily interested in the applicant's ability to repay the loan in the time set. For this reason an Operating Statement is of utmost importance. It shows the costs of doing business and the Margin of Profit that may be expected. A complete Financial Statement will also reveal to the bank the amount of security available to support the loan. While banks vary in the amount of collateral required to protect a loan, it may be taken as a general rule that the interest of the applicant in the business must be such as to convince the bank that the applicant has sufficient of his own money invested as risk capital.

The type and amount of collateral required by the bank will vary. Bonds, joint notes, shares, etc, may be accepted. Sometimes the bank asks for an Assignment of Book Debts. There are times when cautious bank managers demand collateral well in excess of reasonable protection. The canner should be prepared to provide a reasonable amount of collateral but he should guard against excessive demands for collateral as it might well cripple future borrowing.

Borrowing Under Section 88—Most canners make use of Section 88 for borrowing Operating Capital. Banks are empowered under this section of the Bank Act to loan money against materials, goods in process, and finished merchandise. The extent of the loan advanced under Section 88 will vary with the following:

1. The experience of the bank in canning operations
2. The supporting collateral offered
3. The general financial position of the canner

A bank making advances under this section will require sufficient margin to protect the bank from downward changes in market values. As already explained a canner should have sufficient Working Capital in his business to finance the first part of his pack.

Method of Loaning—Normally the canner prepares a budget of his pack season expenses. He places this Budget with other Financial Statements before his banker and together they prepare an application for a line of credit. Since

a large portion of the required Operating Capital is dependent on the finished pack it is usual for the bank to make a series of loans as required during the pack season rather than one loan at the beginning. This works to the advantage of the canner in that he is not paying interest on money before it is needed.

The usual procedure is for the canner to apply for a line of credit sufficient to see him through his pack operation. The banker then makes application for the loan to his provincial or head office. When the credit has been approved, the canner borrows against this as the need arises. Frequent reports supported by warehouse receipts are required by the banker as evidence that collateral under Section 88 is sufficient to protect the loan.

Bank Assignment—When Operating Capital is advanced under Section 88 it is usual for the banker to obtain an assignment of debts. In effect this means that the money from the sale of packed goods comes to the bank to be applied against the loan. The actual manner in which this is done depends somewhat on how the canner handles his sales and the banker's experience with the individual canner.

STORAGE PROBLEMS

The storage problems dealt with in this section are those business problems arising from the necessity for holding portions of the pack. Problems relating to type of structure required and the physical handling of products in storage are discussed in Publication 828, Canada Department of Agriculture, Ottawa, Canada.

Immediate Sales

Most canners consider the situation ideal when goods move out of the plant as fast as they are packed. Some canners are prepared to make price concessions to encourage this.

In times of short supply there is no difficulty in finding immediate sales and clearing packs as soon as they are ready for shipment. In normal times the situation is quite changed. The average buyer does not care to stock ahead of his immediate needs. If prices are fluctuating he cannot afford to purchase more than he knows will be used in a relatively short period. As far as possible he indulges in hand-to-mouth buying. A bad guess on his part as to which way the market will go might well cost his firm money and him his job. This sort of buying tends to drag out the marketing season for the canner and he finds storage a necessity.

Over-Packing

Reluctance on the part of the buyer to stock goods is not the only reason for storage of stocks. Frequently the canner packs in excess of estimated needs. In a season when raw products are in plentiful supply and prices are low there is a decided temptation to over-pack. The canner realizes that profits are dependent to some extent on volume. Costs of packing are not in direct proportion to volume packed, but tend to go down as the volume increases. Consequently the canner decides to put up a large pack and take a chance on the

market. If other canners think the same way the combined pack may be more than the market can absorb. The result is a temporary surplus that must be stored.

Planned Carry-Over

A pack carry-over may not necessarily mean poor marketing. On the contrary a planned carry-over may indicate skilful marketing. If the canner is working hard to establish his brand, continuity of supply is essential to maintain the goodwill of the buyers. It is very disturbing to the average buyer to find that the promotional work his sales force has expended on introducing a brand to the retail market is suddenly nullified because of shortage of supplies. Consumers may ask for a favorite brand once or twice but after that they are content to take the substitute the retailer offers. Every time the retail merchant sells another brand because a favored brand is out of stock makes it that much easier for the substitute brand to replace the original choice.

Storing for the Buyer

Many buyers will contract with a canner at time of pack for future delivery. It is not usual to set up a definite schedule of deliveries. The buyer takes the goods as he needs them. How long the canner holds these and whether he charges for storage is a matter of agreement.

Time Clause

Contracts calling for holding goods for buyers should contain a definite time clause. The rate of charge and the date on which it comes into effect should be set out in the contract between the canner and the buyer.

Holding for Market Rises

Storing canned goods for possible rises in the market was formerly a favorite form of speculation on the part of buyers and buying brokers. Most wholesale firms have come to realize that they are in the market to serve the retail trade and not to speculate. Neither is the average small canner in a position to speculate. His selling price should give him a certain percentage of profit. A conservative policy of taking this profit rather than waiting for a rise is sound.

Storage and Financing

As pointed out previously a reasonable carry-over from one pack season to another might well prove to be good business. Nevertheless this problem of carrying over portions of packs presents a difficult financing problem for the average small canner. Banks are usually reluctant to advance operating funds for a pack when a portion of the previous year's goods is still in the canner's warehouse. This is a canning industry problem that many banks seem to overlook. Indeed many small canners feel they have been unduly harassed by banks, probably on head office instruction, that insist that one season's pack be cleaned up before any money is advanced for the packing operations of another. Sometimes this policy has led to so-called "fire sales" that served only to depress the general level of the market. If loans against storage stocks are

adequately protected by ample margin between cost and selling price, and if the market is reasonably firm, there appears to be no good reasons why storage stocks should be forced onto the market.

Warehouse Receipts—Field Warehousing

Canners located near large distributing centres are often able to finance storage packs through bonded warehouses—a practice sometimes referred to as Field Warehousing. Advances against sales are made on warehouse receipts either by the warehouse itself or a finance company working through the warehouse.

INSURANCE PROBLEMS

Adequate insurance becomes essential for the average small canner, as it is necessary to protect his own and the bank's interests. The whole matter of amounts and types of insurance is highly complicated. It would appear that the small canner would be well advised to consult an experienced insurance broker. Excess insurance or the wrong type of insurance is an expense paying no dividends.

Bankers making loans for operating purposes will demand that the canner's operation be adequately insured. Usually policies amounting to the bank's loan are made payable to the bank.

Coverage

Adequate insurance should cover the following:

1. Buildings and Equipment
2. Boiler
3. Liability
4. Stocks
5. Key-man Protection
6. Use and Occupancy

Buildings and Equipment—Insurance of these two items is standard procedure. The canner should make certain that his declared values are in keeping with replacement costs, and that policies are kept up to date. The type of construction and the location have considerable influence on costs of insurance. It is good policy to have an appraisal made every few years.

Boiler Coverage—Boiler insurance is a specialized form of insurance designed to protect the canner against the loss and damage due to boiler explosion or failure to work at a critical time.

Liability Coverage—Protection against claims for accidents while using company property, or in actual factory operations may be obtained through Liability Insurance. The same type of insurance may be obtained for protection against claims for injury as the result of usage of products packed. For example, cherry pits in processed products may cause damage suits for breakage of dental plates, etc.

Stock Coverage—Stock insurance is a necessity. Policies are usually of the reporting type. An estimate of the year's pack is made and initial premiums are based on this estimate. Reports of actual stocks may be made monthly. At the end of the season an adjustment is made between the initial premium and the actual monthly coverage.

Key-man Protection—Some small canneries insure individuals who are very important to the success of the operation. The canner thus protects himself against possible loss through sickness, accidents, death, etc., of key personnel.

Use and Occupancy—This insurance covers loss incurred because a plant is unable to operate during an important period. Possibly fire has rendered a very necessary portion of a factory unusable with the result that the whole plant is shut down. Due to some other cause a whole operation may have to be moved to a rented plant. This is a useful form of protection against unfortunate contingencies at the peak of the season.

Part III

SELLING PROBLEMS

SALES METHODS



QUITE as important as operating an efficient plant, and producing a quality product, is the problem of marketing the output of the cannery. The small canner has several courses open as follows:

1. Selling direct to the consumer
2. Selling direct to the retail trade
3. Selling direct to the wholesale trade
 - (a) on an exclusive basis
 - (b) through a broker
4. Selling through a canner-owned sales office

Direct to Consumer

Most small canners soon recognize the impossibility of selling their pack direct to the consumer. A few friends and their friends are always anxious to buy direct from the canner and even to pay full retail prices. It is apparent, however, that those sales could only serve a very small cannery. The extra profits obtained by retail prices could soon be absorbed by extra accounting, handling, storage, and transportation.

Direct to Retail Trade

Local merchants are often anxious to obtain local packs. The fact that the goods they have to offer are a local product assists sales. But as in the case of sales direct to the consumer the local merchant seldom sells sufficient to enable him to handle the entire output of the cannery. This means that the local merchant is prepared to take the best of the pack leaving the slower moving items in the hands of the canner. If these are offered to the wholesale trade it is obvious that wholesalers will have little interest.

The merchants themselves, while often acting in perfectly good faith, find that they made an error in judgment. The bulk of their merchandise comes from a wholesaler who is prepared to deliver goods from day to day or week to week. A warehouse carrying a complete line of the merchant's requirements is maintained for his special benefit. In exchange for this service it is only natural that the wholesaler expects the merchant to purchase all of his requirements from him, not selected items.

Direct to Wholesaler

Frequently the small canner sells direct to the wholesale trade. By selling to the trade generally he does not restrict his potential outlets. However, if the canner decides to sell direct to the wholesale trade generally, that is not employing the services of a broker, he must be prepared to either maintain a sales staff or else do the selling himself.

Sales Staff

The average small canner is not in a position to maintain a sales staff. The expense is out of proportion to the benefits received.

Own Salesman

The canner who acts as his own salesman knows exactly what the problems of selling are. Whether the knowledge he gains is worth the cost is quite another matter. The man with a very small pack might be able to afford the time to keep in contact with his potential market. The canner with a larger pack will probably find that the time and expense involved in making and maintaining contacts is more than he can afford. For this reason he will turn to one of the other means of selling to the wholesale trade.

Exclusive Deals

Frequently the small canner can make exclusive deals with either wholesalers or chain stores purchasing on a wholesale basis. Where it is possible to make such arrangements the canner may reduce his selling expenses but offsetting this are certain conditions that may have to be met, as follows:

1. Supplying items in short supply
2. Granting special discounts

Short Supply—Any deal that covers only items in short supply is of little use to the canner. When goods are in short supply selling is no problem. Short-supply items should be used by the canner to stimulate the sale of his regular lines.

Special Discounts—In the matter of granting special discounts in exchange for outlets for the canner's pack the canner will have to decide whether the saving in the cost of selling warrants the loss through the discounts.

G.I.N.D. Sales—G.I.N.D. Sales, (goods invoiced but not delivered), are frequently employed as a means of assisting canners during periods of heavy expenditure. The wholesaler agrees to take a specific block of goods at a specific price. Because of limited warehouse space, or market conditions, he is not prepared to take immediate delivery of these goods. To assist the canner the wholesaler agrees to have the cannery invoice the goods and to pay the invoice although actual delivery is not made until a later date.

SELLING THROUGH A BROKER

Selling direct to the wholesale trade may save the canner the usual brokerage fee but against this must be weighed the fact that the average small canner has neither the experience nor the inclination to act as a salesman. Following are some of the advantages of using a broker:

1. The broker is in constant touch with the market
2. His compensation is in proportion to his sales-commission
3. Commission rates are standard
4. The broker has an already established clientele
5. The canner pays only a small portion of the broker's sales expenses as other lines share these
6. Selling through an established broker is the usual method employed by the small canner.

Choice of Broker

In choosing a broker a canner should remember that all brokerage firms are not equally efficient, and should consider the following points:

1. Is the broker accepted by the trade?
2. Is he familiar with the line?
3. Does he handle competing lines?
4. Has he sufficient volume?

Acceptance by Trade

The broker chosen should be well and favorably known by the trade the canner hopes to serve. There is little point in choosing a broker who is not known to men who do the buying of the products the canner has to offer.

Familiarity with Line

Obviously one of the first requirements will be to choose a broker thoroughly familiar with the lines the canner has to sell. There can be little point in choosing a broker to handle canned fruits when past experience has been confined to tea or coffee.

Competing Lines

Many brokers carry several competing lines. It is difficult to understand how they can offer efficient service to their various clients under such conditions. A grocery broker thoroughly familiar with the grocery trade obviously is better suited to handle a line of canned fruits than one whose connections and experience has been with hardware. But if a broker is already handling a line of canned foods that must come in direct competition with the canner's own pack, it is reasonable to expect that one or the other of the lines is going to suffer.

Sufficient Volume

The canner should understand from the start that the broker is interested in selling his line for monetary reasons only. There must be enough volume to return the broker sufficient commissions to meet his expenses in connection with selling, and give him a reasonable margin of profit. This aspect of the problem is not given sufficient consideration by the average small canner.

Canner-Owned Sales Office

If several small canners can arrange to work together, it may be possible to set up a canner-owned and directed sales office. One group effected this step in the following manner:

1. They formed an association registered under the laws of the province
2. They marketed under a single brand name
3. They packed to a uniform standard.

They chose as their sales manager a man familiar with their crop production problems. He also had experience in plant operation and was thus able to act as an organization inspector to maintain uniformity of pack. He had business experience and was able to assist members with problems incidental to banking, credits, etc. He had connections with the wholesale trade and was acceptable to them. It is not easy to find men with such qualifications, but it is most important that the man chosen have the right connections with the trade.

This association paid the sales manager on a commission basis. He received 5 per cent of all sales, and took care of his own office, and travelling expenses. When sales volume increased, commissions were reduced to $2\frac{1}{2}$ per cent, the usual brokerage fee.

The sales office received all orders, issued all shipping instructions to canner members, did all invoicing, all collecting, and banking of returns. Disbursements then were made to canner members twice a month. An important feature of the set-up was that sales were pooled. Thus, if goods were sold on markets with varying returns, all canner members received the same price for their products. Pack insurance was carried as an association charge, canner members paying that portion of the entire cost that their pack bore to the combined pack of the group.

This method of selling has several commendable features but it is possible only where a group of small canners are prepared to work together, and where combined sales are sufficient to attract a properly qualified man.

SALES CONTRACTS

There are two common types of contracts that the canner can make with the buyer, namely, S.A.P. Contracts and Firm Contracts.

S.A.P. Contracts

These are contracts usually made early in the season. The buyer agrees to take certain volumes subject to approval of price, hence the term S.A.P. When packs are ready for delivery the buyer and the canner must agree on the prices

to be charged. This type of contract gives the canner some indication of the buyer's requirements, and it certainly protects the buyer for both quantity and price.

Firm Contracts

A firm contract sets forth both quantities and prices. It is a satisfactory contract for the canner. However, firm contracts can prove embarrassing. If prices advance the canner feels that he has made a poor deal. If prices decline the buyer is certain that he has, and is likely to be much more cautious in placing any future contracts.

Protected Contracts

A form of contract that would seem much fairer to both buyer and seller is one that contains a "current market price" clause. In such a contract the buyer agrees to purchase a certain quantity of goods at the current price at time of delivery.

PACK AND SALES RECORDS

An adequate record of packs by kinds, sizes, and grades is an absolute necessity. The canner should be in a position at all times to ascertain the size of his pack. Month-end inventories are of very little use since within two days of taking inventory the stock position may be entirely changed. Pack and Sales records can be combined thus reducing the number of compilations required. A satisfactory form for this purpose is shown in Fig. 10.

STOCK RECORD—1952				Peaches 24/20 Choice		
Cases	Inv.	Mo.	Firm	Address	Bal.	Value
650 2,000	53 59	Sept. Sept.	Seasons' Pack.....		12,000	
			Model Wholesale....	Montreal.....	11,350	2.25
			Big Four.....	Toronto.....	9,350	2.20

Figure 10. Pack and Sales Record Card.

It is suggested that during the period when packs are increasing these cards may be used as a daily pack record. As the packs are entered the last figure appearing under the heading "Balance" shows the total.

The same card may be used as a sales record. As the goods are shipped the quantity is subtracted from the previous total thus giving the new total under the heading "Balance". Sales value of the invoice may be inserted under the heading Value or the unit price may be inserted if preferred.

ADVERTISING

Purpose

Advertising has become such a highly specialized form of sales promotion, that even those firms spending but a modest sum turn to a recognized advertising agency for advice and guidance. To what extent the small canner can use advertising to advantage depends on such factors as:

1. Funds available
2. Media available

Funds Available

Funds available should be determined by the canner prior to approaching an agency. The amount to be spent on advertising may be determined as a percentage of gross sales, or an arbitrary figure may be taken covering what the canner is prepared to pay.

Media Available

Media in great variety are open to the canner. Selection will depend on the field to cover, the method to be used, and the money available. The following are some of the media open to use:

1. National publications
2. Local newspapers
3. Radio, national or local
4. Display material
5. Direct mail

Consumer Advertising

Any advertising that aims to reach consumers generally is likely to be beyond the reach of the small canner. Direct Advertising to the consumer can be directed, however, to a special market with the object of stimulating sales within that area. A concentrated effort on a small area might well pay handsome dividends.

Dealer Advertising

While Consumer Advertising may have to be limited because of cost to restricted areas, Dealer Advertising can be used by the average small canner to cover the entire field he serves. The importance of Dealer Advertising is often overlooked by the canner who feels that to advertise properly he should be

reaching the consumers. Advertisers of nationally known brands may create dealer demand by working through the consumer. The small canner has to depend on consumer demand by working through the dealer. For this reason Dealer Advertising is of utmost importance. Dealer Advertising may be through the following:

1. Trade papers
2. Explanatory literature
3. Displays

Trade Papers—Trade papers are excellent media for reaching dealers. Copy prepared by experienced copy writers can be of considerable assistance in acquainting dealers with the special merits of the goods the canner has to offer.

Explanatory Literature—Form letters, printed circulars, or booklets designed to acquaint the dealer with the merits of the canner's product are usually helpful. If the dealer is given pertinent information regarding varieties of products used, and processes employed, the usefulness of this method of advertising is greatly increased.

Most wholesalers are anxious to know more about the products they have to sell. Such information is of direct value to them when they approach dealers. The dealers in turn pass the information along to their customers. Thus this type of Dealer Advertising becomes in effect Consumer Advertising.

Dealer Displays—Display advertising within the reach of the small canner aimed at stimulating dealer interest is often of considerable value. Effectiveness does not depend on cost so much as on careful planning and execution. The canner might well determine his objectives, and what he hopes to accomplish by such a campaign. Having done this he should then seek the advice of those who make a business of mapping out and carrying through such campaigns.

Support Advertising

This is a form of advertising in which the canner can participate with little difficulty. It is in effect co-operative advertising. Both wholesalers and retailers frequently use this type of advertising and look to the canner for support.

Wholesalers make use of it in their monthly house organs and the price lists they send to the trade. When listing a canner's pack they often will include advertising copy. The same applies to their printed price lists. For this advertising the canner pays a set rate.

Retail merchants make use of co-operative advertising when putting on a special sale. The merchant may use handbills, newspapers advertisements, or radio announcements for this purpose. If particular brands are stressed in the way of special positions or cuts, the dealer frequently expects the canner to pay a portion of his advertising costs.

General Policy

While there is no doubt of the effectiveness of this type of advertising the canner should not undertake it without a very definite policy that is quite clear to the trade. The type of advertising in which the canner will participate, and the extent to which he will be responsible for costs, should be definitely understood.

Use of Advertising Cuts

For almost any form of Dealer or Support Advertising an advertising mat is a necessity. A mat is a paper matrix from which metal plates can be cast by the printer for use in setting up advertisements. The mat is made from a special composition paper into which molten metal is poured. It is in effect a mould. Once the original cut has been made, any number of mats may be taken from it.

Any recognized Advertising Agency is in a position to have mats made in accordance with the canner's requirements. These may be an illustration of the product or a whole advertisement. The cost of preparing suitable mats is not high and if any printed advertising is to be undertaken the use of mats is recommended.

Store Displays

One of the commonest forms of introducing new lines to the public is to co-operate with the retailer in having a display. Here again the canner's policy should be clearly stated. Displays run all the way from simple window displays with perhaps a few printed cards to elaborately trimmed stalls with special attendants giving samples and explaining the merits of the product. Margins in canned foods are close and canners would do well to weigh carefully costs and results obtained.

DIRECT MAIL ADVERTISING

Direct Mail Advertising is not so commonly used by canners as it might be. It may be used for stimulating both dealer and consumer interest. It has the advantage of being under the control of the canner at all times. He may select the areas he wishes to work in, the extent of the coverage he wishes to make, and the means he intends to employ. Direct Mail Advertising may be carried through:

1. Broadsides
2. Circular letters
3. Folders and booklets
4. Blotters
5. Price lists
6. Enclosures

Use of Broadsides

Broadsides vary in form from a single sheet that is really a handbill to a complicated folder on magazine stock and in full color. They may be used to announce Special Sales or an extended Educational Program.

If the Broadside to be used is a simple handbill covering a Special Sale, the local printer can set the type and print the job. If it is to be a color job on special stock the canner would be well advised to turn the layout and art work over to an Advertising Agency.

Circular Letters

Circulars in letter form play an important role in any Direct Mail Advertising Campaign. They permit an intensive coverage of selected areas, and the canner can select the group of Wholesalers, Retailers, or consumers to whom he wishes to direct a special message.

Most print shops have fonts of typewriter type and can set letters that closely resemble originals. In some localities there are special letter shops that turn out circular letters in type matching the canner's own typewriter, leaving space for the canner to insert the heading with his own machine.

Folders and Booklets

Folders and Booklets offer many opportunities for direct advertising. Recipe booklets are a standard method of encouraging consumers to use products advertised. Housewives, in spite of modern housekeeping methods and the multitude of prepared foods available, never seem to lose interest in collecting recipes.

Price Lists

Price Lists sent to the trade at regular intervals are a necessity. The form they take depends on the canner's policy. Simple mimeographed lists may be sent out if all that the canner desires is to acquaint the trade with current prices and terms of sale. More elaborate price lists carrying an advertising message as well as current prices can be printed.

Enclosures

Price lists, simple folders, etc, all form excellent "envelope stuffers". Canners may use them to advantage in outgoing mail. Usually the local printer can turn out a satisfactory job.

LABELS

Private Labels

Some wholesalers have spent considerable sums in developing private labels. In order to maintain a steady supply of quality products for these brands they frequently make agreements with canners for either all or part of their order to be labelled with their private label. In such instances the canner should weigh the advantages of having an assured outlet for his pack against the disadvantage of having his product behind someone else's label.

Many small canners have the impression that wholesalers using private labels are not too concerned about the quality of goods packed under this label. This is a misconception. The wholesaler has spent time and money in establishing his label. It is one of his best advertising media. His standards are likely to be much higher for goods packed under his label than for goods packed under the canner's own label. If the pack is under the canner's label the responsibility for quality and satisfaction rests squarely on the shoulders of the canner. When goods are under the private label of the wholesaler he becomes responsible for them.

Canner's Labels

It is good policy for a canner to have his own labels to use on at least part of his pack each year. As conditions permit he can increase the percentage of his pack bearing his own label and achieve a greater degree of independence in his marketing. If the canner is to market under his own label and hopes to create a demand for it, the choice of style and design is important. His label serves a twofold purpose. It not only informs the consumer of the contents of the tin but it acts as the canner's silent salesman, constantly on the job. For these reasons the small canner is well advised to choose his label carefully.

Color

There are certain fundamentals to keep in mind when choosing a label. White labels always give the appearance of larger size. Dark colored labels on the other hand tend to cut down the apparent size of the container. Although government regulations call for size being shown clearly on the label, the fact remains that many housewives overlook the size declaration. For this reason the apparent size of the tin may be quite important.

Eye appeal is one of the strongest influences in the housewife's choice. Consequently, the label should be designed to attain a maximum of eye appeal. Color and design are the important features of the label. In choosing these a careful study of other labels currently on the shelves should be made.

Design

Simplicity in design tends to increase size, while labels with complicated designs and printing tend to reduce size.

The design itself should be left to a competent label designer. Firms printing labels maintain artist staffs prepared to carry out the basic wishes of the canner, and at the same time bring to the task the result of years of experience. The original plates are usually made at the expense of the canner and become his property.

Trade Mark

Trade marks and the labels themselves may be registered with the Government. If the canner intends to build up acceptance of his own label he should register it so that others can not benefit from the goodwill established over a period of years. Cost of registration is not high.

Second Labels

Many canners who establish a name label for their first-grade products do not use the same label for other grades. Thus their "Fancy" pack may appear under one label while a second is used for "Choice" and a third for "Standard".

This practice had its origin in an effort to prevent confusion in the minds of both dealers and consumers. It is contended that some consumers are not too careful in checking grade declarations at the time of purchase and it is

quite possible that a purchase of Fancy peaches, for example, under a certain brand name might be followed by a purchase of Standard of the same label without the consumer being aware of the difference in grade.

Consumer Information

There is a marked tendency at present to use the label as a means of conveying to the consumer certain information. Thus many labels now appear with panels indicating, the number of servings in the can, the variety and its characteristics, the origin of the product, and suggestions for use.

Quantities to Order

Most labels form a portion of a single sheet. That is to say, labels of many products are printed at one time on a single sheet and the individual labels cut and trimmed after the sheet has been printed. Thus labels requiring a special color such as straight black, silver or gold, are run in sheets with other labels requiring the same color. This may have a bearing on the promptness of delivery. Consequently label requirements should be made known well in advance of the time they will be required. Usually runs are in minimum lots of approximately 25,000. Larger runs result in quantity discounts.

The problem of how many labels to order at the start of the season is always difficult for the small canner. It may be difficult to estimate the quantities of labels required as quantities packed, and grades, vary with the season. Thus carry-overs are practically impossible to avoid but should be kept to a minimum.

Buyer's Labels

When canners pack under buyer's labels it is usual for the buyer to supply the canner with labels. There are two commonly used methods of handling the situation:

1. The labels are sent to the canner free of charge. The buyer then receives an agreed-on label allowance. At the end of the season the canner accounts to the buyer for the labels used and for those on hand. These are either returned to the buyer or kept by the canner for another season.
2. The canner is charged the going price for the labels the buyer sends him. The canner then bills the buyer without giving a label allowance, or an adjustment is made covering the difference between the amount the buyer has charged and the canner's usual label allowance.

Storing Labels

The proper storage of labels is always a problem. Labels should be kept in a dry storage room preferably on racks so that they are readily available for use and counting. Keeping proper records covering label inventories is another of the record chores disliked by most canners and yet if the canner is to have control over his label costs he must know how many labels he has on hand. Not only is this information necessary to keep costs to a minimum but it is essential to planned marketing.

Overprinting Labels

Overprinting of labels means the blocking out of a specific item and adding a new one. It is usually the result of a wrong estimate on the canner's part, but may be due to fill, or other factors in packing. Overprinting is at best a makeshift, and from a sales point of view the canner would be much wiser never to use an overprinted label.

If overprinting has to be done it is well to discuss with the printer the best method of obtaining a neat job. Overprinted labels must be approved by the government before they may be used legally.

CONCLUSION

"Business Problems of the Small Cannery" has been developed in three main sections: Organization, Management, and Selling. An attempt has been made to answer the questions that are most frequently asked by individuals or groups who contemplate entering the canning business.

As this field of industry is highly organized and developed, this bulletin can serve only as a first step to new operators. If it can guide prospective canners along the paths employed by successful canners, it will have achieved its purpose. The small canner is more likely to succeed when sound processing technique is joined with good business administration, adequate records, and a carefully organized selling program.

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Supplementary Reading

Additional information on specific problems discussed in this bulletin may be obtained from the following:

Organization

Establishing and Operating Your Own Business—Domestic Commerce Series No. 22, U.S. Dept. of Commerce.

Business Executive's Guide—J. K. Lasser, McGraw-Hill Publication.

Provincial Regulations—Registrar of Companies, Provincial Capital.

Getting Into Business for Yourself—O. Fred Rost, McGraw-Hill Publication.

Financing

Practical Financial Statement Analysis—Roy A. Foulke, McGraw-Hill Publication.

Financing A New Small Business—Dept. of Commerce series No. 3, U.S. Dept. of Commerce.

How to Run A Small Business—J. K. Lasser, McGraw-Hill Publication.

The Small Businessman and his Financial Statements—U.S. Dept. of Commerce.

The Small Businessman and his Bank—U.S. Dept. of Commerce

Financing New Industries in Canada—Dept. of Trade and Commerce, Ottawa, Canada.

Bookkeeping

Record Systems for Small Stores—U.S. Dept. of Commerce.

Cost Accounting—John G. Blocker, McGraw-Hill Publication.

Standard Costs for Manufacturing—Stanley B. Henrici, McGraw-Hill Publication.

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